

Editor's Note: This is the second in a series of three essays by Keith DeGreen on the general topic of America and Democratic Capitalism. © 2023 DeGreenCo LLC

For more from Keith DeGreen visit www.degreen.com

The Supremacy of Democratic Capitalism

By Keith DeGreen, J.D., CFP®

National Champions

The Chinese Communist Party – the CCP -- rules China. The Party looms above the government in China's hierarchy of power. The CCP openly promotes and subsidizes state-owned or controlled companies, also known as "SOEs."

The CCP calls these state-owned enterprises their "National Champions."

But it misses the point. In the United States we have more than 332 million national champions. We do not call our national champions SOEs or corporations. We call them citizens.

Our consideration of "The Supremacy of Democratic Capitalism" starts with this: in the United States we embrace and seek to protect the fundamental rights of the *individual* – the right to worship, to speak, to assemble, to travel, to try, to succeed, to fail, and to try again.

We seek to protect those rights with the most responsive and successful economic and political system ever devised – democratic capitalism. In America, democratic capitalism takes the form of a Republic where we as citizens – as America's national champions – select those who will represent us in government; and where we as citizens hire and fire those representatives through our vibrant nonviolent political process.

The overreach and unresponsiveness of our government in recent years presents its own challenges. We will address these challenges in future essays and podcasts. However, as we will illustrate here, our system has historically demonstrated a remarkable ability to address and remedy those excesses that abuse the fundamental tenants upon which we built our nation.

Despite recent trends within our schools and universities to define us as members of groups -- what I call social eugenics – Americans know – we *know* – that we are each defined not by the color of our skin, or by our religion, or by our sex, but – as Martin Luther King so eloquently put it – by the content of our character. Yes, we *know* – and this is our

greatest strength – that we – not just Americans, but all God’s children – are each a unique and sacred minority of one.

We know these things because, as Jefferson so eloquently put the matter:

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

In fact, western civilization, and from it, democratic capitalism, has brought to the world the highest level of freedom in the history of humankind. It has brought an avalanche of shared knowledge. It has brought the greatest level of wealth ever known to man. It has cured diseases, built great cities, rewarded excellence, and provided extraordinary and widespread wealth with which we gladly help those in need.

We Win. They Lose.

In my home office hangs of me and President Ronald Reagan meeting one-on-one across his Resolute desk in the Oval Office.

The year was 1988. I was Arizona’s Republican Candidate for United States Senate.

I managed to turn my youth and inexperience into a political defeat that year, but I will never forget meeting the man who met the Evil Empire of the Soviet Union toe to toe, and who – against all odds and without firing a single shot – lived to see the collapse of that horrible system.

Regarding communism, Reagan’s vision was clear. At a time when the world had accepted detente as inevitable, at a time when the world accepted the existence of two utterly incompatible political systems on earth, Reagan told his advisors he had another plan, and it was this: “We win. They lose.”

And we did win. Temporarily.

However, today we again face many external threats: China’s oppressive Communist Party, Russia’s aggressive kleptocracy, Iran’s terror-exporting theocracy, and North Korea’s despotic dictatorship, to name only a few.

But regardless of external threats, societies can also perish from within; and today our nation faces many internal challenges.

So today we explore our amazing heritage – and offer a few solutions made possible by that heritage.

Early in his career, President Reagan wrote: “Freedom is never more than one generation away from extinction. We didn’t pass it on to our children in their bloodstream. It must be fought for, protected, and handed to them to do the same.”

It is therefore incumbent on us to impress upon our children and grandchildren the foundations upon which we have built our society. To impress upon them that what we

have is the product not just of tremendous sacrifice, but of remarkable good fortune and inspired leadership.

It is for us to provide this message: that people were not always regarded as unique, sacred minorities of one; that individuals were not always protected as this – or any nation's – national champions. That they were not always free to pursue their dreams. That we can lose it all if we are not careful; and that we – our society – our America – remains mankind's greatest hope for preserving and advancing the great cause of individual freedom.

Will we succeed? Only if we remember – and teach – what brought us this far. Only if we protect the fundamental principles upon which democratic capitalism and our Republic are based.

Our Roots: The Miracle of Western Progress

Travel with me back a thousand years. Imagine the year is not 2023, but 1023. Where was the wealth back then? Where was progress in full swing?

Just one thousand years ago, Europe was still largely a backwater of small, fragile primitive kingdoms. The prevailing economic system was feudalism: pure vertical government. First there was the king or queen. Then the nobles. Then their vassals, and finally the serfs. Everyone – *everyone* -- served the king.

Some city states, primarily in Italy – Florence, Milan, Venice, and Naples -- flourished not so much from trade with the rest of Europe; but from trade along the Silk Road that had existed since before Christ, and that extended east from those Italian ports through Constantinople – now Istanbul – to the gates of Beijing.

While Europeans were busy fighting each other, commerce and progress flourished along the Silk Road. Cities and empires rose along that road.

For two thousand years, the best science and the best products – silk, spices, tapestries, gold, silver, and other minerals poured forth from the dynasties in China, and from the Byzantine, Ottoman, and other empires.

The Silk Road was the center of wealth, commerce, science and progress for more than 2,000 years. Not Europe.

So, what changed? What sparked the explosion of science, the arts, and commerce in Europe? What destroyed progress within the empires along the Silk Road? What held China and the Muslim world back for centuries despite their early progress? And most important, what ignited the explosion of ideas and commerce in Europe – an explosion that crossed the Atlantic to take root, in a unique and powerful way, in North America?

In short, the important question we ask is this: what led to the theories of democratic capitalism and the work ethic that would enrich and protect this, the greatest nation on earth, and that would also enrich and inspire the modern world today?

With apologies in advance to historians (who might embellish or challenge my summary below), I offer this capsulized account of the rise of western civilization.

First, as is the tendency among all large institutions, the Catholic Church in Europe, and the Islamic faith along much of the Silk Road both become increasingly doctrinaire, and – with apologies to my Catholic and Muslim friends – increasing oppressive.

Indeed, that oppressive interpretation of Islam along the Silk Road – the comingling of religion and governance – sadly continues to prevail in parts of the Muslim world today.

Thus, as Christian Europe emerged from its Dark Ages due to the factors discussed below, the Islamic world slipped further into its own dark age – from which many parts of that world have not yet fully recovered.

But China was neither Christian nor Muslim. What held China back for centuries? It may have been the Confucian emphasis on stability.

It might also have been (as a sailing enthusiast I find this fascinating), of all things, the exorbitant cost of the eunuch Admiral Zheng He's enormous fleet. In the 1400s, this massive Chinese fleet had already sailed as far as India and east Africa. But tragically, the Ming dynasty destroyed the fleet as it rejected all western influence – just as many European explorers were setting sail to discover the new world.

The Four Magic Words

What happened, then, in Europe, that launched mankind into the modern age?

Here is my summary explanation in just four words: Printing Press, Reformation, and Enlightenment.

In 1440 Johannes Gutenberg invented the printing press. At first the press was used to print Bibles exclusively. But soon the Protestant reformers used the press to profound effect. For the first time, ordinary people who learned to read could enjoy not only the Bible, but also many other books and pamphlets that were widely distributed.

Ordinary people began to read – they began to read! And the world would never be the same.

Meanwhile, the authorities in China often prohibited the use of printing presses. Why? They may have regarded printing presses as an affront to China's ancient and proud art of calligraphy. Meanwhile, the imams of Islam often viewed the printing press as a direct threat to their political authority. Thus printing was also suppressed throughout much of the Muslim world.

Next came the Reformation. It dates to 1517 when Martin Luther wrote his "Ninety-Five Theses".

Also known as the Protestant Reformation, during the 1500s reformers such as Martin Luther, John Calvin and even Henry VIII challenged papal authority and questioned not

only the Catholic Church's ability to define Christian practice, but also its involvement in government. (Henry's challenge to Papal authority was a bit less high-minded. He just wanted to divorce his wife.)

At the heart of Luther's writing was a simple premise: that we can each seek a direct relationship with God without the intermediary of the Catholic Church. From this concept, arose the idea that the creation of wealth – not just for the church and the King but for individuals was noble *if used for God's purposes*. This birthed the Protestant Work Ethic. The Reformation also advanced the notion that the church and the state should be separate.

What happened next, beginning around 1688, was the ultimate political miracle: the European Enlightenment.

Science was elevated to a discipline intended to better understand God's plan. Meanwhile, the concept of *horizontal power* – power spread among the people – gained popularity thanks to great thinkers such as John Locke and David Hume.

Locke advanced the theory that governments based on *the right of kings* were not legitimate. He argued for liberty and equality. David Hume advanced the concept of *separation of powers*. Incidentally, Hume was a friend of Ben Franklin. In turn, Franklin helped apply Hume's separation of power concept to our own Constitution.

Make no mistake! These were radical ideas because power had always been vertical, based on the divine right of kings. Meanwhile, the Church drove government policy for more than a thousand years.

I contend that those four words: Printing Press, Reformation and Enlightenment were the foundation of democratic capitalism in America. But something else happened beginning around 1760 that enriched humankind – and empowered our fledgling democracy -- beyond words: The Industrial Revolution

The Industrial Revolution & “Horizontal” Power

At first, the industrial revolution was just a conglomeration of shops that supplied the British government with guns, ammunition, and the accretion of war.

Then shops evolved into businesses that also provided the first mass-produced textiles; and finally, as diverse, massive enterprises to supply goods of all sorts to the world.

With the explosion of production came the explosion of wealth across a small but growing cadre of industrialists, merchants, and professionals. They saw the need to protect their wealth from the crown, and from others, and demanded the laws necessary to do so.

Contrary to widespread belief, and while living conditions for ordinary people were horrid back then, the standard of living of all strata of society was improved by the industrial revolution. People flocked to the cities because, as bad as conditions there were, they were better than the feast-or-famine rural existence from which so many fled.

The English common law quickly evolved to protect commercial rights. Contract law, commercial law, property law – legal traditions that made their way to America with our English settlers.

The increased wealth of the industrial revolution spread the horizontal nature of power.

So, as the migration to America began in earnest, and even though the King claimed sovereignty over the new world, pilgrims and settlers brought with them these latest and greatest legal concepts, and those electrifying concepts of democracy.

In 1776, these concepts – these fabulous ideas -- inspired a 33-year-old scion of wealth and privilege to write our Declaration of Independence.

Yes, Jefferson was a jumble of contradictions: A slave owner who professed freedom, a proponent of the rights of man who enjoyed an aristocratic life as a plantation owner; but also, the author of what remains the most transformative political document in history.

Then, in 1787 our Constitution established our republican democracy. For the first time, ultimate power became vested in the people, not in wealthy and privileged individuals alone (some of whom helped write the document that surrendered their power). No, they said. Power did not vest only in the privileged, nor in a king, but in the people – yes, even dumb people! For the first time ever, society's elite surrendered their power – to the people.

Thus, what became the richest most powerful nation on earth began, ironically, with an act of surrender: surrender of the exclusive rights of the privileged few to the rights of the many ordained not by a king, but by God.

All of this was incredibly radical thinking – and it all culminated in our Constitution just 236 years ago!

The older I get, the less time that seems to be! It is only a little more than three times longer than I have been alive!

The Secret Sauce

Economically speaking, what is Capitalism's prime ingredient? What is the secret sauce? What does it need to really work?

The secret ingredient is – and always has been -- widespread land ownership. Yes! Land Ownership!¹

A corruption-free system of recording widespread land ownership – and the means to purchase and clarify title to land – are fundamental elements of successful capitalism.

Why is it so important? When we own clear title to land, we can build on it, grow things on it, increase its value, and leverage that asset by borrowing against it to provide cash

¹ See *The Mystery of Capital*, by Hernando De Soto, New York: Basic Books, 2001. Eighth Printing.

for other productive purposes: starting a business, paying for education, buying cattle or crops, etc.

With clear title to land, an owner can obtain a loan from a distant lender who does not even know the borrower. That is *huge* because real-property collateral creates the ultimate liquidity upon which capitalism depends.

Clear title to land is all too rare around the world. Even countries dedicated to the principle of democratic capitalism struggle to achieve that end without a transparent system of widespread land ownership.

We give too little credit to our early elected leaders in this regard. They developed, with great transparency, our system of recorded land ownership – the very foundation of capitalism.

As Americans pressed westward our leaders surveyed and opened a system of sections and townships. Remarkably, during the darkest days of our Civil War, the 37th Congress had the incredible foresight to pass The Homestead Act. Under the Act, settlers could claim forty acres of land and – if they worked it for five years – could claim it as their own. Union Civil War veterans needed only two years.

Yes, all this happened to the detriment to native Americans. But by one surveyed section at a time our government opened land for settlement all the way across our continent. Americans came west knowing that our nation's laws and its protections -- including its military – followed them into the vast North American continent.

What is more, when people owned their land – just as today – they had skin in the game. They were part of their community – they *were* the community. They had a stake in the condition of their roads, of police and fire protection, schools, and countless other civic issues.

Today, we hear crazy talk from the left that individual home ownership is not that important. Baloney! Home ownership – land ownership -- is the foundation of our economic system!

Our Heritage

This, then, is our heritage: the printing press, the reformation, the enlightenment, the work ethic, property rights, human rights, the inspired words of our Founders, our belief in God and yet also our separation of church and state; our belief that we are indeed each a unique, sacred minority of one, and our fundamental belief that governments derive their just powers solely by the consent of we, the people.

What a remarkable heritage that is!

The Roots of Modern Communism

Yet even as America exploded with opportunity in the 1800s, a dark cloud loomed over much of Europe.

As Americans moved westward after the Civil War, an unfair, dangerous, and dirty industrial revolution continued in Europe. While their living standards improved from the primitive agrarian lives of their ancestors, urban workers were subjected to many hazards, they were paid very little, and great wealth was captured by the very few.

In this environment, if Karl Marx and Friedrich Engels had not come on the scene, with their sick vision of a communist world, someone else might have stepped forward with an alternative vision.

But it was Marx, sponsored by the – ironically wealthy -- Engels, who in his 1867 book, *Das Kapital*, gave voice to oppressed workers even as he tied his message to a perverted and morally bankrupt political philosophy.

His view – alive today – was that capitalism contained within it the seeds of its own destruction; that what he called the material dialectic – the constant struggle for material things – was the exclusive lot – and sole motivation – of the masses.

Sure enough: each time Capitalism has hit a snag – the financial panics of the late 1800s, the great depression of 1929, and the financial crisis of 2008 – each time – someone has declared capitalism dead. Until it was not.

The communist solution? A communal existence enforced by – get this – a “dictatorship of the proletariat.” Marx, Engels, Lenin, Stalin, Mao, the Castros, and now China’s Xi have insisted – despite all evidence to the contrary – that communism was mankind’s ultimate, inevitable and only answer. Incidentally, Xi is an ardent Marxist.

But, absolutely without exception, everywhere communism has existed, or does exist, it has required, and does require, a brutal authoritarian government to maintain its existence. There are *no* exceptions to that rule! Nobody in their right mind who is not in power willingly chooses to live under communism for long. They never have. They never will.

That is why – except for our wacked-out college professors – only those who can exploit the totalitarian nature of communism support it. Vast fortunes have often accrued to people connected to communist governments. In other words, as George Orwell succinctly stated: some are more equal than others.

America’s Income Inequality? Really?

Communism’s false promise is equality for all through state ownership of all property. Socialism’s false promise is that through state ownership of the means of production, workers will enjoy better working conditions and will be better compensated.

We could drive trucks through the tortured logic of these false promises, but that does not stop the left from criticizing America’s “egregious” income inequality -- an allegation that is demonstrably false.

Jesus said in Mathew 26:11: “The poor you will always have with you.” He might as well have also said, “The rich you will always have with you.”

For no matter what the political or economic system in which they have lived, throughout history there have always been those who have managed to make piles of money -- and there have always been those who, even with the opportunity to do better, remain poor.

Meanwhile, America’s left today falsely claims that the income disparity between the bottom 20 percent of American households and the top 20 percent is something like 60-to-1. That is patently false. After taxes and transfer payments – welfare – the income disparity, on average, is 3.8 to 1. That is all.

In fact, an American household with \$5,000 per year of earned income can count, on average, count on an additional \$45,000 per year in welfare and other transfer payments. This brings their disposable income up to about \$50,000 per year. I am not kidding. \$50,000 a year.² Whatever you might think of that policy, it is American Capitalism that provides the wealth to make this possible.

And how have American workers fared without communism? Without socialism? How have they done within our resilient and responsive Democratic Republic? How have they fared under Democratic Capitalism?

Except for some tiny boutique countries, American workers are by far the best paid workers in the world. Meanwhile, their rights and safety are protected by law at every level. Perhaps this is why today only ten percent of American workers belong to a union -- and more than half of those work for the government!

Union membership has fallen off for many reasons, not least of which is this: many of the historical legislative goals of the American labor movement have been accomplished. While unions will always argue that more work must be done, the accomplishments of the American labor movement, aided and abetted by democratic capitalism, are remarkable: These accomplishments include laws that address, for example, occupational safety and health, wages, collective bargaining rights, pensions, Social Security, Medicare, equal employment opportunities, and much more. Our vibrant system of *Democratic Capitalism* made this possible.

Democracy agitated for those solutions. Capitalism paid for those solutions.

By comparison, a final note on the legacy of communism. The first communist country was established in 1917 when the Bolshevik Party seized power in Russia and created the Soviet Union. In just a bit more than one hundred years, the estimate of persons directly killed by communist regimes, beginning with Lenin through Xi, exceeds 110 million. 110 million people! This does not include those who died or who continue to die today in, for example, failed communist states such as North Korea, Cuba, or Venezuela;

² See *The Myth of American Inequality* by Phil Gramm, Robert Ekelund and John Early, Rowman & Littlefield Publishers (2022)

and it almost certainly undercounts those who died from malnutrition or disease in Mao's China or Stalin's Soviet Union.

Winning the War

We face many external threats these days: Russia's kleptocracy and aggression, Iran's Theocracy, dictatorships in North Korea and Venezuela, to name a few.

But make no mistake: the communist government of China – standing astride the world's second largest economy, and a nation of 1.4B people – poses, by far -- the greatest threat to the United States and to the values of western civilization. Perhaps ever.

A similar impasse occurred more than 30 years ago between our democratic system and what President Reagan called the "Evil Empire" of the Soviet Union.

Until Reagan, our leaders sought only balance and "detente" between our system and theirs.

But when it comes to corrupt kleptocracies, when it comes to hateful theocracies, when it comes to dictators, and when it comes to China's oppressive communist regime – when it comes to all this vs. democratic capitalism – I do not think in terms of balance. I do not think in terms of détente. I do not think in terms of accepting the status quo. No. I think as Reagan thought -- and my thought is this: We win. They lose.

Solutions to the China (CCP) Threat

How do we win? How do we move China toward a more just, more democratic, less threatening rights-based society?

Without firing a shot.

There are many solutions. Permit me to offer just a few based on my decades of experience in finance.

First, keep in mind: China absolutely needs access to our deep and liquid capital markets – our stock and bond exchanges. We must compel the CCP to comply with our rules to access those markets.

Here we can stop financing China's state-owned enterprises – their "National Champions."

Today, state-funded Chinese SOEs routinely list their stock on our exchanges; and they use the money they raise – our money – to lie, cheat and steal their way toward dominance in their fields while using often stolen technology to strengthen a Chinese military that is designed – make no mistake – to kill American sailors and soldiers should the time come.

An old communist saying provides: "We will hang the capitalist – and he will sell us the rope."

Well, when we buy the stock of Chinese state-owned enterprises – when we buy the stock of their so-called “national champions” – we are no longer *selling* them the rope. We are *buying* them the rope!

That is why I – and a growing list of Americans – strongly recommend that we prohibit the sale of SOE stock on our exchanges. Simply do not allow it.

If China wants access to our capital markets, then only their publicly-held, non-state-owned, companies should have that access – if those companies even exist in the future. Further, we must require those companies to comply by the same reporting requirements as U.S. companies – something we barely require or enforce now.

Here is a second suggestion: state-owned investment funds -- often known as sovereign wealth funds -- invest trillions around the world, including here in the U.S. We must not allow them to use state money to buy their way into controlling interests in either our companies or our real estate.

No surprise: China has the world’s largest sovereign wealth fund, which has affiliated funds. These funds – financed with state resources -- have the money to buy voting control of American companies. Meanwhile, they continue to snap up large swaths of American real estate.

I understand: if you are the stockbroker or real estate agent facilitating those deals, or if you are the seller who is receiving top dollar, you love the money those sovereign wealth funds throw at you!

But *please* think beyond your own immediate self-interest, and do not delude yourself! You are trading your children’s freedom for your own thirty pieces of silver.

In fact, sovereign wealth funds can – and often are – motivated by factors other than pure investment economics. *Of course* they have political objectives as well! They are owned by their governments after all!

Therefore, I would only allow sovereign wealth funds or their affiliates to invest in most U.S. companies – not defense related companies – on a strictly *non-voting* basis. The use of non-voting share certificates is certainly not unprecedented.

Sovereign wealth funds and their affiliates could invest and participate in the growth of our great companies. They could even receive dividends – in short, they could have a stake in the success of our system; but they should be issued only non-voting shares.

And our land? As Will Rodgers once said, “They ain’t making any more of it!” Sovereign wealth funds and their affiliates should simply – and emphatically – be prohibited from owning U.S. real estate. Period. Full stop.

Finally, one other obvious solution – something we should have done long ago, at the very least: Eliminate SOE stocks and bonds from all publicly-traded ETFs, funds, and investments within the U.S. This would include their elimination from funds offered

through all pension programs and within qualified retirement programs and accounts. This is a no-brainer.

I repeat: China needs access to our capital markets, as do many other countries. That is why these simple steps are imperative. Again, they are:

- Prohibit SOEs' access to our capital markets. (i.e., prohibit them from selling their stocks or bonds on our exchanges)
- Require strict compliance with our disclosure laws by foreign (non-SOE) companies that list on our exchanges.
- Issue only non-voting shares to foreign-controlled entities such as sovereign wealth funds and their affiliates; and
- Prohibit the sale of U.S. real estate to any government controlled or affiliated foreign entity.
- Alternatively, eliminate SOE stocks or bonds as an investment choice within all public investments and investment programs.

We can and should use our economic strength – and our moral authority as the world's greatest democracy -- to bring the CCP further into compliance with international law.

These are just a few of the economic and legal steps we can and should take to diminish the financial strength of our greatest adversary, and to compel its compliance with the rule of law.

All without firing a shot.

There is NO “Moral Equivalence”

We cannot – we must never -- accept the notion that there is parity – or a moral equivalence -- between our systems. In fact, China has replaced its so-called Century of Humiliation with a Century of political oppression – and we have helped finance that oppression.

Our systems are *not* equal. Not by a long shot. There is absolutely, positively no moral equivalence between America and the kleptocracy of Russia, between America and the theocracy of Iran, between America and petty dictators, and – most certainly – between America and the communist government of China.

Freedom and Communism, freedom and kleptocracy, freedom and theocracy, freedom and tyranny are not morally equivalent. Not now. Not tomorrow. Not ever.

Which brings us back to the rights of the individual.

That is the foundation of democratic capitalism. The foundation of our Republic. The foundation of western civilization.

We are Built for Freedom!

Yes, we *are* endowed by our Creator.

Think of it! We have eyes with which to see distant horizons; ears with which to hear great words; legs to carry us as far as we are willing to walk; arms with which to reach for what we want; hands with which to grasp what we hope to keep; brains with which to reason and – most important of all – minds with which to dream.

Yes, we are each a unique, sacred minority of one! Yes, we were born for freedom!

In 1787, when an 81-year-old Benjamin Franklin hobbled down the steps of Philadelphia's Independence Hall moments after the framers had approved our Constitution, a woman asked him, "Sir what have you given us?" He replied: "A republic, if you can keep it."

Let us always stand for democratic capitalism. Let us always stand for our Republic. Let us always stand for the individual. Let us always stand for freedom!

For more from Keith DeGreen visit www.degreen.com