Obama's Capitalism Sucks Tour

In 2009 we witnessed Obama's "global apology" tour, in which he traveled from country to country telling crowds how evil the United States has been and how much better it will be with him in the Oval Office. Now, in late 2011, and probably through much of 2012, we get to experience Obama's "Capitalism sucks" tour, in which he excoriates the (somewhat) free market—which was responsible for making the United States the most prosperous and productive nation in history.

In his December 6 speech in Osawatomie, Kansas, Obama stated, "I believe that this country succeeds when everyone gets a fair shot, when everyone does their fair share, when everyone plays by the same rules. These aren't Democratic values or Republican values. These aren't one percent values or 99 percent values. They're American values. And we have to reclaim them." By "fair shot," Obama means "affirmative action." By "fair share," Obama means 53 percent of the nation's workers pay higher taxes so that 47 percent do not have to pay any. By playing by the "same rules," Obama certainly does not mean a flat tax; he means actions like having the National Labor Relations Board implement new rules that favor labor unions.

TrevorLoudon.com pointed out that *Osawatomie* was the name of the radical Weather Underground's magazine. The cover of the publication's summer 1975 issue featured a quote from North Vietnam's communist leader, Ho Chi Minh. Members of the Weather Underground included William Ayers and Bernardine Dohrn, Obama's domestic terrorist pals, former fugitives from the FBI, and occasional Hyde Park babysitters.

At least until he discards it for yet another one, Obama's 2012 campaign theme will be based on "fair share," "fair play," and "fair rules." Those will be his populist words, but his plans for the nation's future are a mixture of socialism and fascism, perhaps best illustrated by the regime of Italian dictator Benito Mussolini. More than a few discerning voters may hear in Obama's "fair shot and fair share," Karl Marx's "from each according to his ability, to each according to his need."

Without mentioning names in his speech, Obama nevertheless made the identity of the enemy clear: people who run those evil businesses that provide jobs for millions of Americans, and who dare to earn high salaries and generate profits for their companies. The mainstream media, of course, will go out of its way to help support Obama's theme. It already has a track record of misrepresenting facts about corporate America.

As an example, consider media reports of corporate profits. The television talking heads virtually always report company profits in dollars but do *not* mention percentages. If the reporter says, "ABC Company reported a record $10 billion in profit," the average viewer hears only the dollar amount and the word "record." But the dollar amount means little if the percentage is not also reported. Was that $10 billion in profit based on $25 billion in gross sales? Or $100 billion? or $200 billion? The $10 billion may actually represent only a four or five percent profit, which is certainly not excessive. In fact, that would be about average. Contrary to what most people believe, the huge profits (measured on a percentage basis) are made *not* by the oil companies but by the *software* companies, such as Microsoft. In general, the least profit is on the *necessities* of life (groceries, appliances, etc.). The far greater profits are usually on *luxuries* that people can readily do without. (When has anyone seen demonstrators protesting "windfall profits" on perfume, jewelry, designer clothes, golf clubs, or "pet rocks?")

When the media *does* report a percentage, it is typically only to note that a company's profits "have risen by 50 percent." The average viewer hears that and cannot help but think, "Wow. That is outrageous! I didn't get a 50 percent raise this year!" But, again, the information that is omitted is important. For example, if a company's profit increased from two percent to four percent it is correct to announce that it doubled—but neither two nor four percent are exceptionally large profit margins. In fact, they are enough to suggest that the company may not be doing well at all.

Further, many people confuse the term *profit* with *mark-up*. A store may pay $1.00 for a product and then sell it for $1.50. The mark-up is $0.50. But that does not mean that the store's profit is $0.50, because that $0.50 has to cover all the expenses of operating the business: rent, utilities, wages and salaries, benefits, taxes, complying with regulations, corporate taxes, property taxes, accounting costs, security, insurance, etc. Too many people incorrectly equate mark-up with profit. It does not help that most schools do not teach basic economics, and those that do typically do a terrible job of it. The average economics textbook is still based on the failed Keynesian theories that have been proven wrong many times over—and that have been proven wrong by Obama's flawed policies over the last three years. (The textbooks also describe the Federal Reserve as a necessary part of the modern economic world, rather than the shameless disaster it has really been.)

With regard to the term "record profits," that is also meaningless when taken out of context. We have had almost 100 years of steady inflation because of the Federal Reserve's artificial expansion of the money supply. An oil company's net profits will tend to break new records year after year in the same way that the average American earns a "record high salary" year after year. Consider an American worker who made $10,000 in 1975, $11,000 in 1977, and, by 2011, $50,000. Has he not earned a "record salary" year after year? But the "record profits" (as well as the "record salaries") are often typically a reflection of inflation more than anything else. If a company earns a steady five percent profit year after year, it may still show "record profits" in gross dollar terms simply because of inflation—even though its profit never exceeded a modest five percent.

Inflation is clearly the government's favorite and always-reliable hidden tax. The person who today earns $50,000 may *think* he is twice as well-off than when he earned only $25,000. But after factoring in inflation, he may actually be worse off. Instead of judging costs by price alone, it may be helpful to judge costs as a percentage of income. For example, if a new car costs five months' salary but used to cost four months' salary, the cost of a new car has gone up by 25 percent—even if the sticker price has gone up by only 15 percent in the same period. “How much money does it cost?” is perhaps not as meaningful a question as, “How many hours/weeks/months/years must I work to buy it?”

Thankfully, many people are wising up and now realize that earning twice as much money does not necessarily mean being twice as well off. But they still mistakenly blame capitalism for the problem, rather than government. *Inflation is caused by monetary policy, not corporations*. There was very little inflation in the 1800s because the government was not inflating the money supply. You could therefore spend 10 years saving to buy a $5,000 house because the house would still cost $5,000 after 10 years of saving for it. It is no accident that inflation, bubbles, booms, and busts became prevalent only after the creation of the Federal reserve in 1913. Before then, recessions were quick and mild, and severe downturns typically affected only a few industries because of circumstances specific to them.

The problem is that many people cannot see economic issues in their proper perspective—either because the media or the politicians mislead them, or because they are simply not practiced in doing so. The average person asks, “How can that drug company charge $10 for a pill that costs only $0.50 to manufacture? That profit of $9.50 per pill is outrageous!” *But the drug company may have spent five years and $2 billion developing that medication and getting it through the expensive Food and Drug Administration’s approval process.* If the company were to charge only $0.75 for each pill, the company would need gross sales of $8 billion before it would even break even on the product, let alone make a profit. Further, when the patent on the drug expires, the company’s competitors will immediately begin selling its generic equivalent. If the patent runs out before the company earns back that $8 billion, the company may *lose* money on the drug.

The overall process is so expensive that the drug companies can only focus on medicines that will be widely used. If there are only 50,000 people with an ailment, the company would lose money developing a drug for that limited population. With a $1 billion investment the company would have to earn $20,000 from every single one of those 50,000 patients before it would break even. As a result, drugs do not get developed for the less common diseases and afflictions. But because tens of millions of Americans are grossly overweight and have high cholesterol, Lipitor is worth producing. (Its patent is now expiring, by the way.)

The liberal looks at the drug situation and says, “We need to punish the drug companies!” The conservative looks at the situation and says, “We need to figure out ways to make it less expensive to develop new drugs.” The liberal looks at the price of gasoline and says, “We need to punish the oil companies!” The conservative looks at the price of gasoline and says, “We need to extract more oil from U.S. states and territories and reduce our dependence on imported oil.” The liberal says, “Let’s all drive hydrogen-powered cars and eliminate the need for gasoline altogether!” The conservative says, “Don’t forget that creating the hydrogen for those ‘green’ cars will consume more energy than is used by gasoline-powered automobiles.”

Obama sees a terrible economy and high unemployment and says, “It’s the fault of the rich that the poor are poor!” The conservative says, “Let’s show the poor how to become productive and rich.”

I see November 2012 and worry…

Don Fredrick
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