



FINANCIAL PREPAREDNESS

“One of life’s most painful moments comes when we must admit that we didn’t do our homework, that we are not prepared.” ~ Merlin Olsen

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The End of Shareholder Capitalism

In 2020, then-presidential candidate Joe Biden declared an “[end to the era of shareholder capitalism](#),” saying, “It’s way past time to put the end to the era of shareholder capitalism. The idea the only responsibility a corporation has is its shareholders—that is simply not true, it’s an absolute farce. They have a responsibility to their workers, their community, to their country.” Let’s deconstruct this.

First of all, the term “capitalism” was coined by Karl Marx. You could also call it “the free market,” in which humans interact peacefully and voluntarily. “Shareholder capitalism” was coined by the ruling global elite, who want to replace it with “stakeholder capitalism,” a key component of [The Great Reset](#).

Second, no one has ever claimed that “the only responsibility a corporation has is its shareholders,” so that’s a straw man argument. A corporation has many expenses (including labor and taxes), all of which must be paid before shareholders see a dime.

Further, corporations have to compensate their employees so well that they will voluntarily forego the nearly infinite number of other ways that they could spend their limited time and energy. Think about that. For billions of people every day, *their most attractive option* is to go to work for a private employer. What else could the employer owe

them?

Additionally, thousands of corporations make millions of products or provide services that consumers voluntarily purchase with their scarce money. Corporations also voluntarily donate billions of dollars to thousands of charities and other community groups. Is that not enough? Should the government compel them (using the threat of violence) to do more?

As far as “their country,” what Joe really means is the federal government. [He just proposed increasing the corporate tax rate from 21% to 28%, imposing a minimum corporate tax rate](#), and increasing the tax rate on stock buybacks to 4%. I'm sure CNBC's Jim Cramer has already talked about how this would be great for U.S. stocks.

OK, let's think through the consequences of these proposals. So the government would use coercion to force corporations to pay above-market compensation to their employees, which would increase their costs. Unfortunately, we live in a world of *scarcity*, and thousands of corporations are already either currently not profitable, or their profit margin is quite low.

So they would need to reduce their expenses to survive. Most of them would do so by laying off employees, which would increase the unemployment rate. Many of them would also not be able to afford the workers they needed, so quality and service would decline, hurting the community they are trying to serve. The labor market would also become more stagnant since those lucky enough to have a job wouldn't want to lose it, and employers would be less willing to take a risk on a new employee.

After paying a lot more in taxes, there would be a lot less free cash flow left to pay dividends to shareholders. But the shareholders would just sit there and take it, as government policies have no effect on human behavior, right?

Since the only dealings that Biden has ever had with the private sector is taking bribes from it, I'm sure that he has never heard of the term “cost of capital.” Since we live in a world of scarcity and resources (including capital) aren't free, companies have a cost of capital—specifically, a cost of debt capital and a cost of equity capital.

The cost of equity is higher because it's riskier. It varies by company, but usually it's around 11% for a larger, established company, and around 14% for smaller companies. Unlike bondholders, which are secured by the company's assets and contractually owed periodic interest payments, common shareholders get whatever is left over after a corporation pays all of its expenses (or whatever is left over after it goes bankrupt, which is the ultimate fate of all corporations). Often this is little or nothing. Corporations are not required to pay shareholders anything, and most of them don't pay a dividend and never will.

So being a shareholder is a relatively risky proposition, especially since they are the only “stakeholder” that could lose everything if a company goes bankrupt. If you're an employee, you get laid off, perhaps with a severance package. If you're the government, if

you don't receive the taxes the company owes you, you could impose a tax lien on its assets. If you're a bondholder, you become the new owner of the company and receive the liquidation proceeds from the sale of its assets. If you're a shareholder, you lose your entire investment.

Every new business requires capital to fund startup costs such as land, labor, equipment, supplies and raw materials. Capital is the scarcest of these since it requires production beyond subsistence level and then delayed gratification and safeguarding from theft and entropy. If the providers of capital were not the owners of the enterprise, the cost of capital would probably be prohibitive, so the company would never form and all "stakeholders" would be worse off.

If Davos Man now wants various "stakeholders" to become the *de facto* owners of corporations instead of shareholders, the latter will still demand a return in order to compensate them for placing their scarce capital at risk. Since their risk is now far higher, their potential return (i.e., the company's cost of equity capital) will also need to be far higher. The only way that can happen is if stock prices fall dramatically from their current level; I would estimate by around 75%. Since the U.S. stock market is currently the third most richly valued stock market in the world (with a cyclically-adjusted price/earnings ratio of 33 at the end of March), it could probably fall by 85 to 90%.

So Stakeholder Capitalism would be a one-time transfer of wealth and power from shareholders (many of whom are middle class, mom & pop investors) to politicians and the billionaire puppeteers who control them. What about after that? What would forming a startup look like?

Let's say you're an entrepreneur who spots an opportunity to make money by serving an unmet need. You write a business plan and begin to marshal all of the resources you'll need. You locate a parcel of real estate, attract potential employees, and identify all of the machines, equipment and supplies you'll need. Now you just need some capital to pay for it all.

You identify some potential investors and meet with them to make your pitch. You tell them that your business will be collectively owned by various "stakeholders": employees (or their union), vendors (such as the [keiretsu](#) system in Japan), bondholders, shareholders, one or more government bodies, and maybe some NGOs, charities or community groups. The purpose of your business will be to provide benefits to these various stakeholders. Shareholders will get whatever is left over. How does that sound?

A functioning free market economy (and thus human progress and prosperity) cannot exist without capital. So when politicians and the global ruling elite say they want to end Shareholder Capitalism, they really want to end the free market.

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