



Our Weekly Paid Newsletter

# Richard Cluver Predicts

In our 34th year of service to the investing public of South Africa



Volume: 34

Issue: 18

07 May 2021

**If you are a regular reader of this column you will be alert to my concerns that the world is racing towards an unprecedented economic catastrophe that owes its origins to the unsustainable debt of nations which has been mounting at an exponential rate in recent years. When that debt reaches crisis point sometime in the near future it will inevitably shatter world investment markets as global economies struggle to adjust to whatever new reality emerges.**

Much of my consequent pondering has revolved around the measures ordinary folk need to take to insulate themselves as much as possible from the otherwise arguably inevitable destruction of their life savings. But what if the entire concept of capitalism should go out of the door? There are, after all, rapidly growing and increasingly vocal groupings which have through their social circumstances been shut out of the many monetary benefits of the present system and are thus advancing coherent arguments in favour of abandoning the entire concept of capitalism together with the concept of usuary which lies at the very heart of modern economics.

Thus, in the month when we in South Africa have been celebrating both “Workers Day” and simultaneously cutting off the Social Relief Distress Grant which has prevented close on six million South Africans from starving during the Covid pandemic, it is timely to weigh the respective arguments.

Let’s start with one of South Africa’s most respected citizens, Professor Thuli Madonsela who has this month blamed our crisis of burgeoning poverty on capitalism. She has, with logic that is hard to fault, argued that in the face of escalating inequality, and arguments that South Africa can’t afford to honour its constitutional obligations, that it is [time to “rethink capitalism”](#).

Understandably, the most vocal critics of capitalism are the advocates for the “Have-Nots” and its stoutest defenders are the entrepreneurial class that is epitomised by poster boys like Bill Gates, Geoff Bizos and Warren Buffet who have been able to exploit the capitalist system in order to accumulate such incomprehensible amounts of cash that between the three of them they collectively command more wealth than a sizable proportion of the global population.

Sandwiched between these extremes lies a not insignificant portion of the global population; of quite ordinary folk like you and I who, through lifetimes of hard work and thrift, have built modest nest eggs that currently ensure a modicum of comfort in their retirement lifestyles. Is it fair, I ask, to expect their welfare to be sacrificed because, taking the South African example, the ANC government has disastrously failed to deliver an education system which would have offered the poor the only guaranteed pathway to economic self-sufficiency?

Therein lies the kernel of a global debate that goes to the heart of most national constitutions which, by guaranteeing various human rights, saddle the “Haves” with the responsibility of feeding the material needs of the “Have-Nots.” If the “Haves” complain, “Why should I sacrifice all my hard work on behalf of those who are not prepared to get off their backsides and work, the “Have-Nots” have an equally moral argument that, “You have by virtue of your birth or your education been handed the tools that our birth denied us, so it is your responsibility to care for us.”

Far be it that I should try to be the arbiter of such opposing groupings. However, I am sure that most of my readers would likely argue that out of the incomes they have provided for themselves they pay their taxes and

give to charity and quite correctly expect the recipients of these two income streams to get on and deal with the problem. Indeed, it is arguable that individual responsibility should end right there if we were blessed with wise and responsible governments. But that is not an argument that is likely to soften the indignation of a grouping which currently labels itself as “Woke” and whose sense of entitlement might be just as fundamentally laid at the door of the politicians who, at best, have failed to deliver on their promises and at worst have allowed corruption and misallocation to defraud their taxpayers.

Now, it makes for interesting discussion if by dismembering capitalism we mean that we should strip away the entire wealth of everyone, and more particularly that of those enjoying the income of the ‘Top One Percent’ of the world’s capitalists and distribute the proceeds as a cash payment to the “Poor” who, by definition might be recognised because their annual income is less than the global income mean? However, analysis of the numbers suggests that each member of the latter would in that case receive a cash payout equal to considerably less than one year’s earnings. All we would achieve by such a re-distribution would be a temporary party for the poor. And the price of it would be to destroy entrepreneurship which has been the single greatest social liberator this world has ever known.

Meanwhile, it is worth recognising that the idea of capital redistribution is not new. The idea was tried and tested in the ancient world and ultimately discarded. Debt forgiveness is mentioned in the Book of Leviticus, in which God councils Moses to forgive debts in certain cases every [Jubilee year](#) – at the end of [Shmita](#), the last year of the seven year agricultural cycle or a 49-year cycle, depending on interpretation. The same theme was found in an ancient bilingual [Hittite-Hurrian](#) text entitled "The Song of Debt Release" as well as in Ancient Athens, where in the 6th century BCE, the lawmaker [Solon](#) instituted a set of laws called [seisachtheia](#), which cancelled all debts.

In eschewing interest payments, orthodox Muslims today offer us an innovative approach to the problem. However, as I understand their approach, the sum of the interest due for the duration of the loan is simply capitalised at the start. So while this would clearly relieve the unsophisticated borrower of the “misunderstood” penalties of compounding debt, it does not really get away from the principal idea.

But what if we decided by global decree to do away with the idea of interest altogether? Well, for a start it would arguably do away with the concept of pensions and result in the elderly being forced to rely upon the financial support of their children. Worse, however, it would also destroy the idea of venture capital; the process whereby start-up businesses are able to obtain money with which to employ staff who can bring a brilliant idea into profitable maturity, creating countless jobs in the process.

Conceivably it would also destroy the valuation models upon which modern investment markets and stock exchanges operate since comparative price-earnings-ratio-based valuations are currently closely integrated with the “Prime Rate” of borrowing.

Such a step would thus so radically interrupt the modern business machine that, it is probably fair to conclude, the entire supply chain that delivers our personal everyday needs would probably collapse and plunge humanity into famine and chaos. Mankind’s attempts to do away with the capitalist delivery system, most markedly by employing central command systems in China and the Soviet Union during the last century, demonstrably led to the death of millions of people through starvation. It is a story exemplified by a Soviet commissar who, on a goodwill visit to Britain reportedly asked to be taken to meet the man in charge of bread distribution. The story goes that he steadfastly refused, after being taken to one of England’s countless ‘Mamma and Poppa’ type corner bakeries, to believe that the capitalist approach effectively handed over the health of the entire British economy to ordinary citizens and that the lack of round-the-block queues was the proof that the system worked!

And therein is encapsulated my own belief in the system. Capitalism hands power to the people while socialism renders the individual powerless.... though it undoubtedly needs to be held in check by institutions like a Free Press and social pressure groups.

Far be it then that I should thus try in one short column come up with a solution to a problem that has eluded mankind for centuries. I would, however, argue that capitalism is a system that has evolved with civilisation by trial and error over the millennia. Like Democracy, it is a terrible solution to our social needs....until you try all the alternatives. But the two ideas working together to moderate each ism's excesses, have so far proved to be our best Elostoplast method of working together for the common good.

In summation, the wealthy who are currently in an uproar about the Biden tax proposals in the USA will arguably succeed in mitigating them somewhat but nevertheless in the process give up some of the ground that the Trump administration gave them at the expense of the poor. It's a process best likened to the swinging pendulum of politics which, in theory anyway, has brought mankind to this era when, collectively, we are all enjoying the wealthiest phase of mankind's history accompanied by the longest period of uninterrupted peace the world has ever known.

In short, it is probably fair to argue that we are all already living closest to the ideal of Nirvana that mankind has ever seen and, provided we live by a constitution which guarantees things like the separation of powers and the freedom of the Press, we will arguably continue making material progress for everyone.

Meanwhile, noting that US share markets have been roiled this week by the Biden tax proposals which call for the top rate of tax to rise from a current 23.8 percent to 58.2 percent in the most highly taxed states, Treasury Secretary Janet Yellen has, however argued that the increase will only affect the 2.7 percent of Americans who earn more than a million dollars a year....the group that can best afford it.

According to the Bureau of Labour Statistics (BLS), the [median wage](#) for workers in the United States in the fourth quarter of 2020 was \$984 per week or \$51,168 per year. To complete that statistic, of 153,235,089 tax returns for an adjusted gross income of under 1 million filed in 2018 (the latest year the IRS has record for) there were only 539,207 tax returns files for adjusted gross incomes of over 1 million. That means, for every thousand Americans who filed taxes, just three and a half of are income millionaires.

## Do enjoy your weekend

## The month ahead:

**New York's SP500:** I correctly forecast and continue to expect gains until late May and then a longer decline to early August followed by another recovery well into 2022.

**Nasdaq:** I correctly predicted a recovery and continue to expect it for most of May and then declines until early September and I continue to hold that view. I wrote last week in length why the Biden taxes might temporarily collapse this market.

**London's Footsie:** I correctly predicted volatile gains until early May followed by a decline until October which has now begun.

**Germany's Dax:** I correctly predicted that the declines which began in mid-April will continue well into the New Year.

**France's Cac 40:** I correctly predicted the start of volatile declines likely to last for the rest of the year.

**Hong Kong's Hangsen:** I correctly predicted a recovery until mid-May ahead of a long slide down to mid-July.

**Japan's Nikkei:** I correctly predicted the declines are likely to continue until mid-June followed by gains until the end of October ahead of steep declines thereafter well into the New Year.

---

**Australia's All Ordinaries:** I correctly predicted a strong up-trend which I still expect to last until mid-May and thereafter a fresh bear phase until mid-September.

**JSE Top 40 Index:** I correctly predicted the start of a long volatile slide until early September followed by a brief recovery to early October and then a further slide until mid-February.

**ShareFinder JSE Blue Chip Index:** I correctly predicted the beginning of a volatile decline likely to last well into next year.

**Rand/Dollar:** I correctly forecast losses which I see continuing until the first week of June and then further gains until mid-July followed by weakness until late September.

**Rand/Euro:** I correctly forecast gains until September.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.19 percent. For the past 12 months it has been 93.04 percent.***

---

# ***Biden's Capital-Gains Tax Increases Would Hit Few Americans, Study Says***

Wall Street Journal

**Affluent Americans are worried about President Biden's proposed tax changes on capital gains from stocks, bonds and other assets. But those proposals would hit a sliver of taxpayers, according to a new analysis.**

Financial advisers to the wealthy have been fielding calls from anxious clients since the plan was [unveiled last week](#). Many are already deploying a range of tax-reducing strategies in anticipation of the increases, advisers [told The Wall Street Journal](#). But key changes would likely affect only the very wealthy, according to Robert McClelland, a senior fellow at the Tax Policy Center, a joint venture between the Urban Institute and the Brookings Institution.

The Biden plan would increase the top capital-gains tax rate to 43.4% from 23.8% for those earning over \$1 million. Capital gains refer to profits on the sale of assets like stocks, homes or small businesses.

Of taxpayers who filed Schedule D, the form for reporting capital gains and losses, only 2.7% had adjusted gross income of \$1 million or more in 2018, according to Mr. McClelland's analysis of Internal Revenue Service data. However, that group of taxpayers accounted for 62% of capital gains, Mr. McClelland said.

"A small amount of people are going to end up paying it, but it could potentially affect a lot of the capital gains," he said.

---

## ***Bidenomics, like Reaganomics, will swing back again***

BY NOAH SMITH

The ascendancy of progressivism in the US is inevitable; and so is the move back to conservatism in the future

The US is in the middle of an ideological paradigm shift. After decades in the political wilderness, progressives now dominate culture and are poised to dominate economic policy as well. To some, this represents a terrifying prospect. But alternating ideological programmes are an important part of how nations advance; the progressives need to have their serve.

President Joe Biden's economic programme is the most strongly progressive agenda any president has pursued since Lyndon Johnson's Great Society in 1964. It would transform welfare benefits, spend large amounts on infrastructure, science, education, housing and the environment, transform US trade and industrial policy, and make big efforts towards racial equity.

If his agenda passes in anything like the forms proposed, it will alter the entire shape of the US economy. And that will come on top of the cultural dominance that progressives have increasingly enjoyed for a decade.

The ascendancy of progressivism is naturally generating dismay among conservatives. The danger is that they'll respond by using undemocratic means to try to halt the Biden Revolution in its tracks. That could include even more severe gerrymandering, electioneering or even further political violence like the January 6 insurrection. Even if violence doesn't erupt again, conservatives could turn to unhelpful ideas like the "Great Replacement theory" — the belief that America's political and social changes are being caused by

immigration. That idea is already leading Republicans to endorse immigration restrictions that would deeply wound the US economy.

Such fiery, last-ditch resistance isn't warranted. Ideological resurgences like this are reasonably common in US history. It happened in 1933 with the start of the New Deal, and again in 1981 with the Reagan Revolution. Each of those programmes started out addressing the problems of the day, and ended up overreaching, opening space for renewed victories by the opposing party.

**Bidenomics needs to take its swing — it needs a chance to solve the problems of today, even if it ends up being inadequate to the problems that crop up 40 years from now**

The New Deal, despite its early missteps, ended up creating enduring progressive institutions that transformed American society for the better. Social Security, modern labour law, unemployment benefits and banking regulation were among the programme's biggest successes. These were followed by Johnson's Great Society programmes, which were effective in reducing poverty.

But by the 1970s, cracks in the Democrats' approach were beginning to show. High inflation and slow growth during that decade prompted a move towards tax cuts, tight money, deregulation and the addition of stringent work requirements to the welfare system. That backlash eventually congealed into Ronald Reagan's market-centric economic programme, which also added elements such as free trade and a labour approach less favourable to unions.

That market-centric programme — which was deepened and extended by Bill Clinton — seemed to deliver robust income growth in the 1980s and 1990s. But by the 2000s, it, too, had clearly overreached. George Bush's tax cuts failed to stimulate business investment while they increased government deficits more than supply-side economists had predicted. Productivity growth, which ought to be unleashed by deregulation, fell after 2004.

Wage growth, which should theoretically have got a boost from both tax cuts and deregulation, ticked up in the 1990s but never attained the levels of the post-war boom.

Then, in 2008, the financial crisis and the subsequent Great Recession demonstrated very clearly and painfully that deregulation had been taken too far. Meanwhile, the Reagan programme was unable to address other problems in the economy, such as the rise of inequality.

In other words, Reaganomics started out as an attempt to address the problems of its time, but it eventually overreached. The same will undoubtedly happen to Bidenomics someday, if it isn't strangled in its crib.

It's not yet clear what form that overreach will take. Perhaps excessive enthusiasm for government-directed construction will lead to expensive boondoggle projects. Or high debt and deficits will eventually lead to rising inflation. New industrial policies might lead to misallocation of resources towards dead-end technologies, as sometimes happens even in the most skilfully managed systems. Or perhaps welfare benefits will eventually become so excessive they start discouraging work on a large scale.

All these future overreaches are easy to imagine, but they haven't happened yet. And if Republicans manage to halt the Biden programme by making use of the inequities of our electoral system, veto points in the legislature, and even threats of violence, it will be badly premature. Bidenomics needs to take its swing — it needs a chance to solve the problems of today, even if it ends up being inadequate to the problems that crop up 40 years from now.

So Republicans should adopt the attitude that my colleagues Michael Strain and Karl Smith have taken in their criticisms of the Biden agenda: to warn of pitfalls and dangers without waxing apocalyptic. Conservatives need to be the loyal opposition — to criticise the progressive programme and slowly prepare their own comeback. Because that comeback will arrive someday; the right will get its turn at the serve again.

*Bloomberg Opinion. For more articles like this, please visit [Bloomberg.com/opinion](https://www.bloomberg.com/opinion)*