

“We Blew It!”

Description

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We blew it. That’s right, we blew it. What do I mean?



Rather than investing in a sustainable mix of energy and in increasing the productivity of labor and industrial processes, we squandered irreplaceable oceans of capital and credit in oh-so profitable skims and scams such as \$10 trillion in stock buybacks and completely unproductive speculative absurdities.

All the capital that was malinvested in shifting production overseas, financial scheming and speculation cannot be replaced. All the credit that was squandered on skims and scams (borrow billions to fund stock buybacks, borrow trillions to reward cronies and buy the complicity of the masses) is now an unstable toxic dump that threatens a financial system that is now the crumbling keystone of the entire global economy.

We didn’t have to be this foolish, but the incentives made it all rational to squander trillions of irreplaceable capital and decades of irreplaceable time. The incentives reward maximizing short-term profits by any means available, which include bribery, buying political favors, balance sheet fraud, loading companies with debt then taking them public, etc. — none of which increase productivity, innovation or sustainability.

These incentives follow a power-law distribution: the greater the leverage, debt, monopoly and financial trickery, the greater the gains.

Late Stage, Crony Capitalism

None of these extremely profitable financial strategies boosted productivity, jobs or efficiencies. All they accomplished was enriching the already rich. Call this incentive structure whatever you like: *late-stage capitalism*, *crony capitalism*, etc., the bottom line is this global system doesn't reward investing in productivity or long-term sustainability because those investments are risky.

Why invest in something risky when you can generate billions in pure profits via exploitation, fraud and financial games that were once illegal?

- **Exploitation:** arbitrage low wages and minimal environmental standards by shipping production overseas; should costs rise slightly as residents object to their nation becoming a toxic waste dump and their workers being ripped off, production is moved to a more exploitable locale.
- **Fraud:** off-balance sheet, buying a company with debt, selling off its assets, hiding expenses and debt in off-balance sheet footnotes and then selling the indebted shell to unwary investors.
- **Financial games:** load the company with debt to buy back shares, reducing the float and boosting per share earnings without increasing sales, productivity or profits.

Stock buybacks were illegal not that long ago because they are blatant means of self-enrichment. So were pharmaceutical ads aimed at consumers.

This is not the warm and fuzzy version of capitalism found in textbooks. In the PR textbook version, entrepreneurs “create wealth” via innovation that creates new products and services and boosts productivity by increasing the skills of the workforce and the efficiencies of industrial production.

Vampires

Those paid to glorify this facade can cherry-pick examples, but the real money isn't made in innovation, it's made by ring-fencing monopolies and plundering productive assets. Rather than foster innovation, monopolies choke off disruptive innovations and competition as threats to their steady flow of profits.

Rather than invest in increasing productivity — the only real source of wealth creation — profits have been maximized by plundering productive assets: the workforce, resources and once-productive sectors.

All this profiteering took cheap energy and resources and limitless credit for granted. As long as somebody somewhere was doing the dirty work of extracting and processing all the energy and resources needed to keep the system running, then the financiers were free to “create wealth” for themselves via fraud, exploitation and games.

Now that the low-hanging fruit has all been plucked, it's taking a lot more capital and expertise to extract harder-to-get resources.

Credit seemed infinite when rates were near-zero, and everyone said that was The New Normal. But alas, capital still responds to risk by demanding a return, and the happy days of infinite credit and zero rates are over, regardless of whatever hopeful predictions are issued by those wistful for bottomless

credit lines.

Rather than incentivize investing in our workforce and productivity, the system incentivizes plundering the workforce and productive assets, commoditizing everything into chunks that can be tossed into the plunder-meat-grinder to maximize the short-term gains of those who own the financial assets and the political power.

Now that we need to boost productivity and efficiency to build a sustainable economy, the capital, credit and skills needed to do so have been squandered to benefit the few at the expense of the many.

A Race Against Time

Time is running out to change the incentive structure and the system to reward investment in productivity rather than plunder. Look at the charts below of global energy and population. Hundreds of billions of dollars, yen, yuan and euros have been invested in alternative energy sources, but their share of global energy is still so thin a slice that you have to squint to see it.

It will take tens of trillions of dollars to make a dent in energy and industrial-transport-building efficiency. Many people are proponents of nuclear energy, but few look at the scale or cost. The U.S. has built a grand total of two nuclear plants in the past 25 years. Yes, a small modular design recently received approval, and the first prototype may be ready for testing in 2030.

(According to the U.S. Energy Information Administration, “As of May 25, 2022, there were 54 commercially operating nuclear power plants with 92 nuclear power reactors in 28 U.S. states. The newest nuclear reactor to enter service, Watts Bar Unit 2 with 1,122 MW net summer electricity generating capacity, began commercial operation in 2016. Two new nuclear reactors are actively under construction: Vogtle Units 3 and 4 in Georgia”).

To make a real difference, hundreds of such nuclear energy modules will have to be manufactured, and not next century, but starting now. Where are the resources, fuel, capital and expertise to do so? Oops, all the capital went into skims and scams rather than into the workforce and real-world productivity.

Investing in our workforce has morphed into an especially cruel form of financial plunder, *self-exploitation*: the workforce is expected to borrow tens of thousands of dollars to fund their own education, with little guidance from a rapacious banking-higher-education system other than “the more diplomas you get, the richer you’ll become.”

While this self-serving advice enriches the banking-higher-education cartels, it isn’t generating systemic productivity gains. If it did, we’d be seeing huge leaps in productivity rather than declines.

Plunder is fun until everything has been plundered.

Then what?