



# Forget Wall Street — What the American Economy Needs Is More Main Street Capitalism

by DAVID M. SMICK • December 8, 2016

**Policymakers need to assume that everyone is as a potential founder of a business startup.**

**D**onald Trump's predicament is reminiscent of the neighborhood dog who loves chasing cars, only now his jaws are locked tight onto the rear bumper of an 18-wheeler heading cross-country. In foreign policy, the stakes for Trump are obviously enormous — but so too in domestic policy, because half the country is nearly insolvent. Half can't afford an unexpected \$500 bill for a car repair or medical emergency. He will be held accountable.

Team Trump is, therefore, trotting out all sorts of stimulus measures. It is correct that both the corporate and the individual tax systems need to be addressed, as well as the nation's crumbling infrastructure. Yet the U.S. economy has underperformed in providing prosperity for all, not for lack of stimulus. Since the 2008 financial crisis, the economy has been awash in stimulus. It kept us out of a depression. The problem is that while the stock market boomed, income for average working families remained flat.

Trump is also correct that America needs better trade deals and protection from global currency manipulation. But trade represents only 13 percent of America's GDP. What about the 87 percent?

The underperformance of the other 87 percent is tied to something more rudimentary: It is tied to people — their hopes, dreams, and fears. By people, I mean not just consumers but also investors, business operators, and, in some cases, entrepreneurial dreamers of breathtaking innovation.

People simply are holding back. Indeed, the lesson since 2008 is that record-low interest rates mean little if you are apprehensive of the future or believe the system is rigged. To achieve a robust economy, therefore, attitude is everything. It is what Keynes meant when he referred to the rise and fall of the people's "animal spirits."

Because people are holding back, the economy is suffering from a debilitating disease. Productivity growth (doing more with less) has been abysmal because broad-scale investment in innovation is less than it should be. And there may be questions about the quality of today's innovation. In recent years, America's large corporations (those that haven't escaped by moving overseas) have used the Federal Reserve's low interest rates not to invest in America's economic future but to buy back their stock.

Perhaps even more worrisome, innovators are starting firms at half the rate they did 15 years ago. And those businesses that are starting up are finding it difficult to expand into new opportunities as quickly as they have done in the past. Young firms are finding it tougher to go public (and the bulk of new job opportunities come when firms five years old or less go public). America was once the world's Startup Nation. Not so anymore. And why are startups so important? They happen in America.

There are many reasons why people are holding back. They can sense that Washington, D.C., has become a partisan cesspool where nothing ever gets done. The world, both financially and

geopolitically, is a terrifying place. Moreover, technological change is coming so fast that many people feel overwhelmed — or they sense that the big breakthroughs have already been achieved.

But the greatest reason people are holding back is that the economy is under the control of a stifling corporate capitalism of top-down misman-

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agement, backroom deals, and senseless financial engineering. Too many policymakers still cling to a culture of centralized, top-down design at a time when the world, whether with ISIS or Facebook, is experiencing a bottom-up revolution. Too many policymakers still cling to a culture of centralized, top-down design at a time when the world, whether with ISIS or Facebook, is

experiencing a bottom-up revolution.

Under corporate capitalism, even central-bank policy has favored the big, the corporate, and the status quo at the expense of the small, the young, the new, the inventive, and the entrepreneurial. It has favored Wall Street over Main Street. Today, a dozen risk-averse giant zombie banks control 75 percent of U.S. bank assets. Today's leaders in high technology, Google and Facebook, spend more on patent lawyers and lobbyists to stifle competition than they do on research and development.

Policymakers desperately need a more Main Street capitalist mindset in which every man or woman is seen as a potential founder of a business startup. (Women, incidentally, are starting firms today at twice the rate men are.) Almost 80

percent of the new jobs created by multinationals are overseas. For the majority of Americans who don't start new firms, a Main Street-style capitalism of mass grassroots startups can offer a new climate of social mobility. People on the bottom rungs have a greater chance to rise to the top.

As strange as it sounds, since the Enlightenment, significant increases in per capita income have come less as a result of stunning innovative breakthroughs or massive infrastructure projects (though all, of course, were helpful) than from what economist Edmund Phelps calls periods of grassroots "mass flourishing." Ordinary people reinvented ordinary products and services from the bottom up. People became "idea machines."

Donald Trump needs to fixate on encouraging startups, helping young firms survive, and ending the regulatory and patent arbitrage game that large corporations use to gain competitive advantage over the small ones. He should make the process of going public easier and less expensive. In any reform of Dodd-Frank, forget Wall Street and make restoring the vitality of regional and community banks, the workhorses of the grassroots economy, the top priority. He should allow small businesses that use the Subchapter S personal-tax schedules to pay their taxes at the lower capital-gains rate, the same rate Wall Street has been paying on its "carried interest."

The key to higher growth is to encourage the little guy in America to dream big and dare big. Small is beautiful. It's the secret to making America great again. ■

— *David M. Smick is a hedge-fund advisor, investor, and magazine publisher. His new book, The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone, will be published on January 10.*

<http://www.nationalreview.com/article/442864/economic-growth-business-startups-entrepreneurs-wall-street-main-street-capitalism>