

Show Some Respect to Uncle Sam

This article is authored by MOI Global instructor Jim Roumell, partner and portfolio manager of Roumell Asset Management, based in Chevy Chase, Maryland.

They say that there are no atheists in a foxhole. Perhaps. But one thing is for sure...there are few government haters, and fewer capitalists, in a crisis. Whether it's venture capital libertarians' profits, farmers facing draughts, or mom and pop do-it-yourselfers' livelihoods, it's no longer laissez faire and pull yourself up by the boot straps. In a heartbeat, there's suddenly widespread recognition of our dependence on government institutions.

Uncle Sam is like Don Corleone, and we're like Amerigo Bonasera in the Godfather; we show him no respect when things are going well. But when the stuff hits the fan, and it always does, there's nowhere else to go. There's a reason why every successful, modern-day society has a big government - it's necessary. America just has a helluva time admitting it.

Americans have long had a love-hate relationship with the notion of government, often preferring a self-image crafted by Hollywood westerns about rugged individualism. The coronavirus is laying bare the long-misguided policy that government undermines freedom, happiness and economic prosperity and is making clear that, on the contrary, it's a necessary ingredient to realizing those goals.

In fact, the wealthiest nations on earth are all characterized by economies with a dynamic and robust public-private partnership. Nations with governments that orchestrated early and widespread testing at the national level have fared best in fighting the coronavirus. Germany, Canada, Australia and South Korea all had a significant leg up on the U.S. in COVID-19 tests available for its citizens. In fact, the U.S. has trailed virtually every advanced economy in this critical area.

Yet, too many Americans love to hate government, and especially the Federal government...until they, or members of their family, need its powerful resources. When disaster hits, Uncle Sam gets the call. Currently, the call to Uncle Sam has cost about \$3 trillion, and it's growing. Nonetheless, in good economic times and bad, we seem to be unwilling to pay for our government - our annual deficit, dramatically increased by the 2017 Tax Cuts, was one trillion dollars *before* the coronavirus, a post-WWII high (as a percentage of GDP).

Germany has a larger public sector than the U.S., *and* a higher credit rating, because it insists on collecting enough taxes to pay for the services its citizens demand. In 2011 Standard and Poor's issued its first ever downgrade to U.S. sovereign debt to AA+.

It's worth noting that many U.S. corporations are guilty of precisely the behavior that many of their cheerleaders thrust upon the poor - bad choices and a propensity to seek hand-outs. Since receiving their 2017 tax cut, large public companies have bought back over \$1.5 trillion of their own stock, money that could have bolstered their balance sheets for the inevitable rainy day. Some even took on debt to buy back stock. Now, many are asking not to be held accountable for the *choices they made*. According to capitalism (their alleged "economic" religion), what should happen, in many instances, is that businesses should fail outright or,

common shareholders should be wiped out (not bailed out) and creditors should become the new owners.

While Wall Street investors demand government intervention in the form of liquidity and various backstops, many of the same people work to undermine the remaining protective features of the Affordable Care Act (ACA), providing minimum healthcare coverage to some of the nation's most vulnerable, at-risk Americans.

Government detractors often cite the superior capital allocation skills in the private sector, but fail to acknowledge our dependence on public sector research spending. The US Department of Defense's DARPA division is most often cited as where today's internet was born. Mariana Mazzucato's book [*The Entrepreneurial State*](#) documents that while Steve Jobs was a design genius, touch-screen displays and GPS were the products of public research funding. Google's search algorithm was funded by the National Science Foundation. Tesla's cars rely on billions in public subsidies.

Of course, the Federal government could benefit from some of the accountability demanded by private sector actors, but thank God it doesn't operate like a business because the research it does is often too speculative and future-oriented for the profit-now tastes of the private sector.

It wasn't that long ago that the two major political parties agreed that there was a vital role to be played by a strong federal government. Having recently championed (and financed via a gas tax) the interstate highway system, the 1958 Republican Party Platform said, "We are proud of and shall continue our far-reaching and sound advances in matters of basic human needs—expansion of social security, broadened coverage in unemployment insurance, improved housing and better health protection for all our people."

Once the worst of this pandemic is over, we cannot afford to go back to anti-government rhetoric as usual. Today's crisis will not be the last. Why is it so hard for some Americans to recognize the need for both robust and free capital markets, and strong, well-financed government institutions? Perhaps this bit of common-sense wisdom will make a comeback in the post-coronavirus era. Let's hope so, because there are no American lives not positively touched by Uncle Sam's reach.