Jonathan Tepper: The Myth of Capitalism

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Erik: Joining me next on the program is Variant Perception founder Jonathan Tepper. Jonathan, last time that we had you as well as some of you colleagues from Variant Perception on the program I asked the question: Is it time to short the stock market? And the answer was a resounding "No," but very quickly after that qualified as "not yet." And it seemed like the clear expectation was that's coming.

So I guess my first question to you is, Are we there yet? Is it time to be short? Is it time to get out?

And where is this headed? A lot of people are saying, okay, that's it, the top is in. Do you agree? And what do you see coming next for the market?

Jonathan: My colleague Tian Yang was on the show, and when he was on, effectively, the market continued rallying, basically, up until September and the market was going higher. And his message was correct.

One of the key themes that we've been writing about this year was our recommendation to favor defensives over cyclicals. And if you look at, for example, the classically cyclical sectors of financials, home builders, and then you look at things like semiconductors – all of those have drastically underperformed the index over the last few months.

Even within the market, obviously you have the index itself, which was trending higher up until October – but within that you were seeing a big rotation going on. You were seeing defensive stocks starting to outperform. And they you were seeing cyclical stocks really get hit and smacked.

So the message that we've been giving clients is one that's actually worked out tremendously well this year and it would have really made your year if you were a hedge fund manager. Almost all of our clients are family offices and hedge funds. And it's that sector rotation underneath the surface that's mattered.

In late September, early October, we turned quite negative on the market. Part of that was that the market health indicators that we track had turned negative. We had various sell signals that had emerged. Some of these were based on heightened risk in terms of cross-asset class volatility and credit spreads. And others were based on just very poor internals and health for the main indices.

So we did turn negative in late September, early October, and flag that to clients in our weekly tactical updates. Obviously some of our clients are longer-term focused and don't read the weeklies. But for the clients who do trade the market in the shorter term, that's what we were flagging.

Erik: And now that we have seen more than a 10% selloff – and of course for the last ten years, every time there was a 10% selloff, the right thing to do was to buy the dip. We're seeing at least the beginnings of a bounce if not a full recovery.

What do you think from here? Is this just another buy-the-dip opportunity that you should have bought 2,600 hand over fist? Or are there maybe still lows coming?

Jonathan: Well, the latest selloff has been quite interesting because it's been very persistent. It's been steep in terms of price action. But we haven't genuinely seen huge signs of panic. The VIX didn't go into the 30s or 40s, which you'd normally think of.

We've not seen a rally in the 10-year note, for example. 10-year yields have not fallen, which is normally what you see in panics. We've not seen widening corporate credit spreads – they've widened a little bit, but not much.

So we've not seen really extremes in panic, which normally indicates a sharp bottom. We have quite a lot of daily signals that flagged the bounce. But normally what happens in major market bottoms or even intermediate bottoms like 2015–2016 is that you end up with what we call weekly buy signals where we look at things that take longer to move. And we look at how asset classes trade relative to each other. We've not really seen that this time around.

And at the same time, I was talking to you earlier about how the weakness in the market was evident in late September, early October, due to poor market health. That has been persistently bad throughout the selloff, indicating possibly – and time will tell – that we've seen a change in regime in terms of market health.

Now, obviously, we're agnostic and stick to our tools, and we'll follow that. But we've definitely seen a turn in market health for the worse.

Erik: You mentioned the 10-year yield. We had a big, big resistance level around 3.10, 3.12 – there somewhere – broke through it very aggressively, came back down, and retested it as support. And now we seem to be moving back up.

Is the 35-year bond bull market decidedly over and the new secular bear market upon us as many people are saying? And where do you see 10-year yields as well as 30-year yields headed from here?

Jonathan: I think these questions are entertaining but, ultimately, unanswerable. And only answerable in retrospect. I think that it's very difficult to say whether the 30-year trend is over and we'll only know long after the fact. I think that, given that inflation is ticking higher in terms of poor CPI, and all of the leading indicators we have for core inflation, basically continue to turn higher. And it's totally normal.

Inflation lags the business cycle by about a year to a year and a half. You would expect that, until growth turns down, yields do tend to rise. And it's only when growth essentially collapses and turns negative, or there is the expectation of that, that you start to get a rally in yields.

But the other issue on the structural side is the tax reform that was done has basically blown a hole through the budget deficit. The cyclically adjusted budget deficit now is the widest ever. And in the next downturn the budget deficit is going to be of horrific proportions.

So I certainly think that supply is going to be an issue in terms of absorbing that, and people will likely demand higher yields. You could argue that, on a structural basis, yields should trend higher given that the government is going to be running persistent deficits. I mean, the fact that we are where we are with economic growth and employment and the government running massive deficits is deeply worrisome.

Erik: Since we're talking about deficits, let's also touch on the US dollar index. As we're speaking on Tuesday, a couple of days before our listeners will hear this, we're just barely above 96 again. We had seen a test of 97, came back down and retested. 96 seems like, to me, a healthy pullback and maybe we still have higher to go on the dollar.

What's your outlook for the dollar index and the dollar in general against both developed market as well as EM currencies?

Jonathan: The dollar has a few short-term drivers and some longer-term drivers. They sometimes point in the same direction and other times point in opposite directions. The drivers in the short term are yield. The Fed is really the only one that's hiking – not aggressively, but they certainly are hiking.

And most foreign central banks still have very, very low rates, if not zero rates. And they're still relatively accommodative. So the support from the dollar is still pretty strong.

The longer-term drivers of the dollar are more negative and point to a weaker dollar. And that has to do with large current account deficits and large government deficits. So if you look at the twin deficit over time, that's tended to do a pretty good job of leading the dollar index by about 12 months.

Right now, we're at a point in time where the short- and long-term are not pointing in the same direction. So I would expect the dollar to be supported in the short run but certainly there are headwinds. You know, whenever you end up with very large-ish wounds to the government debt and large current account deficits, the dollar tends to weaken.

So that's the short- versus long-term health on the dollar.

Erik: Speaking of the dollar, let's talk about China and China's growth situation – particularly the trade war situation between the Trump administration and China. We're still speaking, actually, on election day. I wonder if a lot of this has been for public consumption going into the election, and if perhaps we're going to see a change of course out of the Trump administration once the elections are behind us.

What do you think?

Jonathan: I can't pretend to have any insight into what the Trump administration or the Chinese may do. I don't live in DC, I don't live in Beijing, I don't have any contacts.

The truth is, I don't think it's necessary in order to have an insight into Chinese economic growth. Variant Perception, which is the company that I founded with a couple of friends and colleagues, has leading economic indices for China. These indices, we've run them, basically, since we started, now almost a decade.

They've done a fantastic job of giving you an advanced read of six to nine months on the Chinese economic cycle. And that has a massive impact on the pricing for iron ore, for copper, for the Australian dollar, and for other things that are China-related. Even though we don't have contacts in China, the index actually does a great job.

What it does is it tracks a variety of inputs that give you a good gauge of China's money and credit situation. And that provides a read. So this year, for example, we've been fairly negative on China, Chinese growth, since the start of the year. That's given us an advanced read, effectively, on a lot of these assets.

But what's fascinating is if you go back to 2015, when people were worried about major yuan devaluations, and 2016, our index had turned down in 2014–2015 so we were negative at the time.

Then, when everyone was maximum negative on China and emergings in January of 2016, our indicator was shooting up. It was a huge upturn. And we were very, very positive, particularly when people were worried about Brazil, which is exporting iron ore to China. The leading index does a great job of getting you out in front of some of the most cyclical profitable trades out there.

So our index gives us an insight into Chinese growth. And I can tell you that I'm sure the trade war is bad and I'm sure it's going to have some impact. But the slowdown that we've seen in China this year predates trade war problems and certainly is not driven by them. It's driven by domestic monetary conditions.

Erik: What are your indicators telling you about inflation?

Jonathan: That depends on which country you're in. We have leading indicators for inflation in the G20 country-by-country. Inflation lags the economic cycle.

If you think about it intuitively – let's say you're a boss at a factory. You don't fire your workers just because you have a good month or two of sales. So employment lags the business cycle.

Just like employment, if you run a supermarket, you don't start hiking your prices just because you have a good or bad month of sales. So unemployment and inflation are two of the most lagging indicators possible when it comes to the economy.

So, if you know where the economy was 12 months ago, you can generally get a good read of where inflation is going to be in the future. All of the inputs that go into a leading indicator for inflation, essentially, are taking stock of where the economy was 6 to 12 months ago and then projecting that forward.

The leading indicators for inflation on the core inflation side continue to point higher. So we're going to keep seeing core CPI grind up. Headline inflation is going to roll over a bit, mainly because the rate of change of the dollar and oil has turned down. Therefore I think you'll see headline CPI roll over while core itself is going to keep on driving up.

It is broadly similar across a lot of other countries. And as growth slows down then you'll start to see inflation itself grind down too.

Erik: A lot of people are saying that this big move down we've seen in oil is maybe signaling an economic recession or other economic slowdown that's coming.

Does that jibe with what your indicators are telling you? And how do you see the move in oil, generally?

Jonathan: Interestingly, oil tends to do very well going into a recession. And you might argue that it helps cause the recession by being too high. If you remember, oil has normally doubled right before our recessions. That doesn't mean that you always get a recession if oil doubles. But that frequently does happen.

Oil collapsed from 2014 and then bottomed, essentially, early 2016 and then has doubled since. It's very similar to the 1998–2001 period where oil collapsed after the Asian and Russian crisis and then doubled into 2000. And then you had a recession in 2001.

So you could argue that we've had a similar dynamic at play. Oil clearly has doubled and gone up.

When you look at emerging markets, everyone looks at oil in dollars but if you look at oil in Turkish lira or you look at oil in Argentinian pesos or – a lot of these emerging currencies – oil is by far higher than it was in 2008.

There clearly tends to be drag on economic growth when it takes a larger part of the global wallet. And that's fairly negative. But that's just one input and not the only input that determines recessions. It's clearly negative; it's a drag. But you would never base your entire investing strategy on that.

Erik: Jonathan, let's come back to Europe where you are. Tell us – some people have said this situation with Italy is we're finally seeing major Eurozone countries falling apart the way Greece did a few years ago. Other people say it's just a flash in the pan, no problem.

How do you see the big picture of the European outlook? And is there risk of a contagion of further exits from the Eurozone by major countries after Brexit? What do you see coming? And what's the outlook?

Jonathan: In the case of Europe, what's quite interesting is that the euro itself is a completely flawed currency, badly designed. It took them quite some time to get the central bank buying peripheral bond markets. The countries themselves do not understand the implications of the euro.

So for the first seven or eight years, inflation basically proceeded as it did pre-euro, even though the central banks in Spain and Portugal and Greece and Ireland and Italy didn't control monetary policy the way they used to.

So, once the downturn happened, then suddenly not only did you have an epic collapse in Spanish and Irish bubbles, but then you basically had peripheral countries that had vastly overvalued currencies, like a Spanish euro was very overvalued relative to a German euro. And they've had to try to adjust their unit labor costs.

Then they couldn't have the central bank buy their own government bonds. And, also, they couldn't inflate away their debt in the government bonds. After that, basically once the ECB started buying, they were helped in the short run and it brought down borrowing costs and spending in Italy.

What we're now seeing is that the market itself is repricing. Where the Spanish and the Italian yields have been very high, they then went absurdly low and priced near Germany. Now they're starting to widen again.

When there is the next downturn in Europe – and there will be, it's a matter of when, not if. Then people have to worry about the level of Italian debt. And Italy can't devalue the euro the way that it did with the lira in the past. And they have to hope the ECB will buy the debt. This is clearly causing a conflict.

I don't pretend to have any knowledge about the Italian political situation or about what might happen in Italy. I'm reassured by Italians I know, the economists, that they won't exit the euro. I think that normally it's the strong currency that leaves currency unions.

So it would be more likely if the euro breaks up it's because the Germans get fed up with the situation in the same way that the Russians got fed up with the ruble zone and ended it – it wasn't the "stans" that exited.

So I think Europe basically – we're likely to see more trouble in the Italian bond markets and repricing, but I think it's unlikely based on history that Italy would be the one leaving the euro area. I think it's more likely that eventually the ECB buys all periphery debt and the Germans get tired of free riding – in the same way that the Czechoslovakia currency was broken up, it was because the Czech Republic got tired of the Slovaks. Normally that's just the way it works when currency unions break up.

Erik: Another topic that we've had quite a bit of interest in on this program has been housing. We've talked about US housing, which seems to have rolled over, but, particularly, Australian and Canadian housing. I know that you did a boots-on-the-ground tour. You were on "60 Minutes" doing a special about housing.

Give us a little bit of background but, from there, I'd really like to hear the update of what you see on the horizon now as current economic events are unfolding.

Jonathan: In the case of housing, obviously housing markets are national and even local, in terms of city. But, speaking specifically of Australia, where I was on the ground with my very good friend John Hempton who is a brilliant hedge fund manager. We were going around checking out the housing markets, speaking to bank managers, to mortgage brokers, to potential buyers, going to the auctions. It was truly crazy.

And what we realized was that the standards for lending were quite poor. There was not a lot of verification of costs in terms of how much people were spending on children's education or rent or anything housing related. And at the same time, there were almost no verifications on income.

Most of the mortgages at the time, over 40% of them were interest-only mortgages, so people were really not repaying principle. They were essentially speculating on the increase in the price of the houses. Howard Marks said that if you're too early you're, effectively, wrong. So I would say that I was wrong in the sense that I was too early.

But in Australia over the last year they've had what they call a Royal Commission, which is essentially an independent body, to look into the behavior of banks. And everything that they have uncovered has corroborated what John Hempton and I did, and pointing out the very poor and lax lending standards that were at play.

Due to this pressure, the banks in Australia are now having much tighter checks on income and costs. And the credit is really turned down and is drying up. So what you're seeing is declines in prices at a national level.

Within specific post codes, you're seeing 10–20% declines, particularly at the high end in Australia. So we are seeing a downturn in Australian housing. Building permits have rolled over. The entire economy is massively geared towards the real estate sector and that's created an enormous wealth effect, which has fed consumption, car purchases, and retail purchases. So there is very much a slowdown and downturn at play in Australia.

Erik: And, as you said, this is a very national and, to some extent, regional and local market. What do you see in Canada?

Jonathan: What's interesting in Australia is there was quite a lot of building in Australia. If you remember the Spanish and Irish examples, there was enormous building going on in those. And generally that's quite toxic for prices because excess supply is the worst thing possible for prices.

Canada does have excessively high valuations. Particularly those in Vancouver are the craziest. Toronto is close behind. Canada, unlike Ireland or Spain or the US or even Australia, has not seen a tremendous increase in supply in terms of building permits and new houses. It's gone up a bit, but nothing crazy.

And, while the Canadian housing market is overvalued, particularly in Vancouver and Toronto, you could argue that that's much more of an affordability or valuation issue. Certainly, like any bubble, there's signs of fraud. But it's not as worrisome from a supply standpoint as in some other countries.

I think that it's probably much more that if you're investing in Canadian real estate it's not a good deal if you're paying too much for it. But I don't see rampant oversupply in the way that I've seen in other countries.

Erik: And what about the United States?

Jonathan: The US is very interesting. I was extraordinarily negative on the US housing market, and almost all my personal portfolio was betting against mortgage lenders and home builders in the financial crisis. Those trades worked out pretty well.

And what's interesting, because I became so familiar with the data I turned incredibly bullish on US housing, essentially from 2011 and early 2012, and dedicated an entire monthly to the – basically, calling for a housing bottom in the US, in long housing, in early 2012.

That was because you'd just seen a complete collapse in new building. At the same time, household formation had continued apace. So in the case of the US, the housing supply/demand dynamics are fairly positive. Everything is local, but across the board, it's still pretty positive.

The problem right now in the US is that the 10-year yield has gone up, mortgage rates have gone up. And, on a cyclical basis, that reduces volumes and building permits. So it's a headwind. I think that that's really what we're seeing.

So Variant has been writing about this for clients for most of the year and flagging the slowdown in housing. If you look at specific stocks that are housing related – and we were talking about this earlier in the program, the cyclicals versus defensive trade – building stocks and housing stocks are the most cyclical stocks around. And they've cratered very much in line with what we were talking about.

So our clients who are reading our research were forewarned about the housing downturn.

Erik: Jonathan, I want to switch gears now and talk about a completely different subject. Our listeners are used to smart finance guys like you writing books. And usually the book is going to be some kind of, basically, marketing campaign for whatever business you're in.

You've written a book that has absolutely nothing to do with what you do at Variant. I know from talking to you off the air that you have become extremely passionate personally – really completely aside from your career and what you do at Variant – in this book that you've written, called *The Myth of Capitalism*.

So, before we even get into the book, what's going on with Jonathan Tepper? You're a very successful guy. Your research is very well respected. Most people would assume, if you're going to write a book, it's going to be in line with the work you're doing at Variant.

What has motivated you to get involved in a project that has nothing to do with your career, really, in the book that you've written?

Jonathan: The book is titled *The Myth of Capitalism*. I'm extremely pro-capitalist, despite this being a critique of capitalism. I love competition. I think the problem with capitalism, as GK Chesterton said, is not that there are too many capitalists but there are too few.

The book really came out of some discussions I was having over beers with friends in London where Piketty's book had come out. Picketty talked about that there was this fatal flaw in capitalism – when growth is low you end up with high returns on capital to holders of capital, i.e. shareholders, and low returns to workers, to labor.

And I thought that just doesn't make any sense. I thought, if there are very high returns on capital – if you've got a business that's doing really well – I would see that and say, you know what, I want to be in that business. I'm going to compete with you.

Jeremy Grantham said that corporate profit margins are the most mean-reverting series in finance, and if they don't revert then something is wrong with capitalism. I think that we haven't really seen a reversion in corporate profit margins over the last couple of years. Something is very wrong with capitalism.

So I started to investigate why. A lot of this does tie in to my day-to-day job at Variant Perception and it is directly related to investing because, if you start thinking about it, one, this impacts corporate profit margins.

If they are now on a permanently high plateau and not mean reverting, does this mean that you pay up? Do you pay higher PE multiples for companies because profit margins aren't going down? What does this mean for workers? Because obviously high profit margins generally come at the expense of workers, right?

The biggest expense that companies have is workers' wages. And part of the reason why profit margins are high is that the labor take of GDP has never been lower. So, while the reason I was interested in this subject was very much from a personal standpoint, it does overlap somewhat with the work I do on a day-to-day basis. I was able to then bring some of my insights or tools to bear.

But I really did loads and loads of reading to try to figure out what's changed. Why do we have less competition? Why are profit margins not being reverted?

It was really when I started digging that I realized the main reason for this is that, in industry after industry in the US, we've seen a merger wave every decade since the early '80s. The merger wave has basically – it's like the US Sweet 16 in the NCAA basketball or the World Cup, where you start out with 16 teams and you go down to 8 and then 4 and then 2 and then 1. What's happened is we moved from an open economy with lots of competitors essentially down to oligopolies and monopolies in many industries.

And that has an impact. It affects the way everyone lives, whether it's in the US or Canada or the UK. The Canadians know this particularly when they pay for their phone bills. The US people know this when they pay for their cable bills or they pay for medical bills.

When there is no competition, the prices are very high. And this clearly means you get higher prices. It also means that wages are lower. And, overall, because barriers to interest tend to be very high – I have a chapter on regulation – you just get fewer competitors coming in. So it leads to a collapse in startups.

A lot of this talk about a fatal flaw in capitalism and secular stagnation, I think, goes straight back to the loss of competition. And that's really what the book is about. The book is titled *The Myth of Capitalism: Monopolies and the Death of Competition*.

Erik: I read the book cover to cover and quite enjoyed it and I recommend it. But let's go back to this particular focus that you have on competition, that being where the breakdown is.

Because it seems to me that the monopolies that you speak of in the book feel like they're in a different category.

When I think of monopolies of yesteryear, going back to 19th century monopolies – and this is one of the stories that you tell in the book – the railroad barons were buying up tracts of land to make it impossible to build an oil pipeline so that they could protect their monopoly on moving oil with railroads. It was literally impossible to compete with them.

Now, I think that somebody looking at some of the monopolies that you focus on in the book, such as Google, would say, wait a minute. There's nothing that stops someone else from building a better search website and coming in and offering a better version of Google. So where is there a monopoly in that?

How would you address that objection?

Jonathan: There are two responses to that. One is that nowadays when people talk about monopolies they're generally talking about Facebook and Google. The book goes into dozens of industries that are perhaps even more relevant to people's daily lives where there are outright monopolies at the local level or, certainly, dualities and very tight oligopolies.

And this ranges from everything like medical care to phone bills to cable bills. And all of these things drive prices higher and reduce choice. There is almost no competition for those.

But, getting back to Google and Facebook, what's interesting is that people somehow seem to assume that Google has reached this stage because it's just so good at what it does and therefore it just doesn't have any competition.

But if you look at the online ad market and talk to people who have been in it for decades – a very good friend of mine actually works at Google – he worked at DoubleClick beforehand. And Google was allowed to buy DoubleClick. So, Google does search ads. DoubleClick did display ads.

What's extraordinary is the FTC allowed for this merger to go through, even though Google was essentially taking out its main competitor in terms of online ads.

And Facebook likewise bought Instagram and WhatsApp. They were able to merge WhatsApp with Facebook to the point where you can't get a Facebook account without a phone number. So now Facebook on thousands of sites across the web functions essentially as your digital passport. You can't get an account on various apps or websites without a Facebook login.

Your listeners probably know that you can't be on Tinder or Bumble – you can't date as a young person in the 21st century unless you have a Facebook account. You can't get an account on either one of those two.

So there are loads of different apps where basically now you've a duopoly with Google and Facebook. They are dictating essentially the rules of the game. And Tim Berners-Lee – he is essentially the creator of the World Wide Web – he established the standards and protocols that Netscape and other browsers then used in the '90s. And he thinks that the internet itself is dying.

So, beyond whether Google or Facebook can charge higher prices to advertisers, and consolidate the industry, it's leading to a loss of innovation and a loss of diversity. Before 2014, if you had a website and I had a website, I could link to you and you could link to me, and we might link to a third party. The Internet was this sort of open anarchic free-for-all where everyone linked to each other.

That was the way it was supposed to be. It was supposed to withstand a nuclear bomb going off and it was very decentralized. Now, after 2014, basically over half of all traffic is going through Facebook and Google. And today it's closer to 70%.

What we've ended up with, rather than an open, decentralized system, is essentially a highly centralized system that goes through two companies. And I don't think that's good for anyone and for innovation.

In the book, I discuss previous historical examples where monopolists may have often come up with interesting ideas, whether it was AT&T with Bell Labs or Xerox with Palo Alto Research Center (PARC), they never really capitalized on their ideas. It was other companies that did.

Generally it's the smaller upstarts that end up creating a lot of the innovation. And R&D as a percentage of revenue goes down as companies become more monopolistic and dominant.

So the book is very much about the collapse in startups that we've seen in the US and about how it's harming productivity and innovation. And I think it actually answers a lot of these big questions that Larry Summers and others – Robert Gordon at Northwestern – are talking about in terms of secular stagnation. I think has roots in the loss of competition.

Erik: When you talk about some of these acquisitions, where Google literally takes out its biggest advertising competitor and there's no resistance from regulators, they allow that to go through, what do you think the core problem is?

It is that the high-tech stuff is confusing to regulators so they don't get it and they don't understand why it's a conflict of interest and shouldn't be allowed? Or is it a case of corruption? What is going wrong?

I mean, the things that you're describing sound to me like things that are already covered by antitrust laws. So it doesn't sound to me like we need new laws. Or maybe you think we do. But it sounds like for some reason we're not enforcing the ones that are already there. What's the cause here?

Jonathan: The problem is twofold. One is that we do have existing laws, which could work. So, in a way, we don't need new laws.

But in the 1960s Robert Bork, in particular, and others at the Chicago school were saying that preventing mergers prevented economies of scale. It prevented efficiency. And all these wonderful efficiencies can be passed on to consumers. So what we needed were more mergers and more scale. That way you'd end up with enhanced consumer welfare.

This sounded wonderful. It may have in fact been good at the early stages of the 1980s.

But when you fast-forward four decades, basically what we're looking at is now very little competition in many industries. And there's overwhelming evidence across the board –I go into dozens of studies in my book – that concentration leads to higher prices.

Companies may encounter some increased efficiencies. But, generally, when they make more money and they have a higher return on assets, what's happening is that they are able to have power over the consumer, which Buffett calls pricing power. And then they have power over suppliers, i.e. they can underpay suppliers.

So the wave of mergers is driven by, essentially, an interpretation of antitrust laws that's called the consumer welfare standard.

Unfortunately, because the Reagan merger guidelines of '82 and then subsequent court decisions have all interpreted the entire antitrust laws in this light, I think it will require a new law to state exactly what the aims and goals of antitrust are.

That, I think, is what's necessary. I think we're going to get it. I think that this subject is really the topic of our times.

I didn't set out to write a hot topic. I think that you can't do that if you're a writer or a moviemaker or any content creator in the sense that movies and books are labors of love.

And they take a long time to write and to think about. So if you're chasing whatever the hot topic today is, by the time your book comes out it's going to be two or three years from now and the hot topic might change.

S I never set out to chase the hot topic. It just turns out that this is what people are talking about. And I think that it's going to be the big story for the 2020 elections in the US because monopolies and industrial concentration are only going to get bigger.

Erik: One of the things I really like about the structure of your book is it's not just whining about what's wrong. You have a whole section that is dedicated to your prescriptions for how to fix it. You've already alluded to parts of that just now, but give us some perspective on the rest of what your prescriptions are for how to fix this situation.

I don't think it's in any way a criticism of capitalism. It's, basically, capitalism is broken and we need to fix it so we get working capitalism. Give us the rest of the prescription of how to fix what's wrong.

Jonathan: I think that there are a couple of solutions. We have them in the last chapter of the book. A book that simply points out that there are problems is not particularly useful. I mean, it's a starting point, but it's incomplete. So what I've tried to do in the last chapter of the book is provide a couple of simple, humble recommendations.

The first one being there is extensive evidence showing that when you get below six players in an industry you get price increases. So, rather than have complicated court cases working out whether conduct is bad or not, an even simpler solution is to say, you know what? The FTC and the DOJ should not sign off on mergers that reduce an industry to fewer than six players.

I think that's what lawyers call a *per se* rule, which is a black-and-white rule rather than judging each one on its merits. And it makes complete sense. It's a very easy to administer rule.

That's the first one.

The second one is that we need to break up companies that have merged to become big and reduce competition. So, previous bad decisions have to be undone if we want to move forward and progress.

That's the second one.

The third one is, essentially, regulation itself acts as a very significant barrier to entry in many industries. To the extent that we have too much regulation and to the extent that regulation serves the benefit of the regulated companies, we need to reduce regulation and have more sensible principles rather than rule-based regulation. That will promote competition. So that is one of the main things that I recommend. I have an entire chapter on that.

So those are very simple, obvious solutions. And they're not the only ones.

I certainly hope that the book is able to spur a greater debate and to make people think about the main themes that are covered in this book. Because I think that it matters to everyone whether – left and right. The book is not partisan in the slightest.

Erik: I want to pick up on that left and right aspect. Because, as a new author myself, I'm not only envious, Jonathan, I am in awe of the endorsements that you have managed to get for this book. On the extreme left, you've got Yanis Varoufakis, the Greek politician. On the right, you've got Niall Ferguson. You've got Kyle Bass. You've got Nobel laureates. You've got Harvard professor Ken Rogoff.

You've got huge, huge names of famous people. What in the world happened? How did you get the attention of so many people that are all endorsing this book and telling people to read it?

Jonathan: I was very pleasantly surprised and did not expect to get the reception that the book got. I'm just realistic. I'm not cynical, but I'm realistic. And I thought, I love the book. I think it's important. I think it's interesting. But will everyone else like it the way I do? I don't know.

What's fascinating is that a lot of economists teach some place, so therefore they're accessible. You can find their email address and their website. I just sent them a very, very simple note saying, look, I've written a book. It's about industrial concentration and monopolies. I think you might enjoy it. Would you like to read it?

I suspect that they are bombarded with thousands of book requests per year, because that's just the way the world works. But what's interesting is that I didn't know when I started sending these emails out that the theme of Jackson Hole, the global central bank conference, this year was on industrial concentration.

Clearly, this is the topic of our times. And people are writing about it. In a way, I don't know almost anyone who endorsed the book. But when I sent it to them, essentially I was saying, hey, here is the topic of our times. I've got a book on this. Would you like to read it?

Fortunately, they more than liked the book. They universally told me they thought it was a great read. They basically read it cover to cover, which I think is a good sign because it's quite rare for an economics book to be a page turner.

Also, essentially, I think it's an important book in the sense that this matters to workers, who are wondering why they're not getting a wage increase.

It matters to consumers wondering why they are paying for ruinous medical bills. Essentially, medical bills are the main reason for bankruptcy in America.

And it matters a tremendous amount from the standpoint of democracy, meaning are we going to have crony capitalism? Or are we going to have capitalism that serves the many and not the few?

Whether you're on the right and you want more competition to make capitalism actually work, or whether you're on the left and you think that people should have a fair shake and we need a slightly more egalitarian society, the book appeals to both.

Which is why you end up with hardnosed hedge fund managers like Kyle Bass and Paul Marshall in London recommending the book, and then Yanis Varoufakis is on the left recommending the book. This is a book that people should find something in it for themselves, whatever their political beliefs are.

Erik: Jonathan, we're going to have to leave it there. But before we let you go, please first tell our listeners who are interested in Variant Perception research services where they can find more information. And also when is the book going to be released? And where is the best place to buy it?

Jonathan: Thank you. The book starts shipping from Wiley on the 12th, which is next week. Amazon has the date a little later but they ship when they get it. And Amazon is monopsonist, meaning they are the only buyer of books and they are essentially a monopolist in many ways. So I do recommend ordering it from your local book store if you can. Ordering it from Barnes and Noble. Our website mythofcapitalism.com has links to order from loads of book stores.

In terms of Variant Perception, people can find more information about the company Variant Perception at variantperception.com and you can sign up – we have a newsletter that goes out. We also have a blog. There's a Twitter account.

If you work at a hedge fund or family office, Variant Perception provides research to institutional investors. Please do get in touch. I think that a lot of these tools that we've been talking about can help clients navigate markets.

I hope they will enjoy the book and I certainly hope they enjoy the research.

Erik: Jonathan, thanks so much for a fantastic interview. Listeners, if you check your Research Roundup email, you'll find there is a download link where you can actually get a free sample, the first chapter of Jonathan's book *The Myth of Capitalism*, as well of one of Variant Perception's research pieces titled "Oligopoly USA." Those links are both in your Research Roundup email.

Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.