

## Politics with No Labels

By John Mauldin | June 12, 2021



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*You can't always get what you want  
But if you try sometime you find  
You get what you need*

—by Mick Jagger and Keith Richards, 1969

There's no way around it: Investing in public companies is always political. Corporations exist because governments charter these artificial entities and legally shield the owners (shareholders) from personal liability.

This initially simple concept grew more complex over time. For those interested in the origins, see the fabulous book [The First Tycoon](#). It tells the story of Cornelius Vanderbilt who, along with steamships and railroads, helped usher in the concept of the modern corporation. Vanderbilt was at the foundation of what became modern corporations, even if he and his cohorts did it to further their own ends. You'll better understand where we are today if you understand how we began.

And from those “humble” beginnings, now we have multinational corporations, doing business worldwide under many different sets of rules, so it gets messy. The interplay between governments and businesses impacts your investments. So does the interplay of governments with other governments. Thus the drive to create an international corporate tax. So you can't escape politics... but you can try to analyze it calmly, without partisan histrionics.

This is why I always include geopolitics and public policy on the Strategic Investment Conference agenda. Leaving them out would mean ignoring an influence that, however unpleasant, is critically important. Fortunately, I have sources who can give it the attention it deserves without grinding personal axes. Today I'll tell you some of what they said.

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## Recovering Borders

We'll start with some highlights on geopolitics. In a previous letter I covered one panel that discussed whether the US and China are enmeshed in [a new Cold War](#). George Friedman said no, we're not (as war to him means actual bullets), though we are certainly contentious rivals in many ways. George made a solo appearance later to discuss broader geopolitical issues. He spoke of many but I want to focus on his Russia comments.

Russia is an unusual kind of player. Its economy is relatively small (number 11 overall behind Italy and Canada), but it has other kinds of power: nuclear weapons, manned space flight, a permanent seat on the UN Security Council, strategically important geography, energy and mineral deposits, and some shadowy criminal groups that like to attack large organizations (including hospitals) for Bitcoin ransom.

George sees Russia's leadership as (my word, not his) obsessed with rebuilding the buffer zones once provided by the Warsaw Pact countries. From the SIC transcript:

And this is what we have to understand about the Russians. The collapse of the Soviet Union took away their strategic depth. It took away Belarus, it took away Ukraine, took away Moldova, took away the Caucasus. It was a catastrophe as Putin has put it. And it really was if you're a Russian, especially if you're a Russian KGB man. Your entire purpose in life is to regain those territories. Ever since 2014, when according to the Russians, the US staged a coup d'etat in Ukraine... and I won't comment on whether it was a coup or not, but we were very happy to see it... Russia has been moving to recover its borders. Its move this year was in Belarus. Belarus in the hands of Ukraine would put the town of Smolensk basically as a border town. Smolensk is deep in the Soviet Union, [which] was deep in the Soviet Union...

We have the advantage of controlling the Atlantic. We could modulate the amount of force we have in the region. The Russians have no real land protection. It is unlikely that this is going to run into a crisis. But certainly the Russians are terrified that behind all the goodwill of Europe and the United States, that they're going to be hit again with an invasion. They're terrified, they're moving, they're reorganizing.

Right now, Europe needs access to Russian natural gas, without which much of the EU economy would grind to a halt. This gives Russia leverage. George doesn't expect a crisis but there's always a danger these things could spin out of control. And we know Russians (though not necessarily the government) are behind some of the recent ransomware attacks.

The US and China may not be in a new Cold War, but in some ways the other Cold War may be back. This bears watching.

## Lines Crossed

Later in the conference we heard from Ian Bremmer, founder of Eurasia Group and confidante of many world leaders. I asked Ian to give us a “world tour” of hotspots, or just areas of concern. He named many but I want to focus on just one: Taiwan.

Others (Louis Gave comes to mind) have noted Taiwan’s dominant position in semiconductors is making it as strategically important as Saudi Arabia was when it was the world’s oil linchpin. Ian agrees, and says this is aggravating US-China tensions (minor editing).

Here’s an interesting way to think of Taiwan. I think that, unlike many areas of the world where the Chinese are changing the status quo in ways that are destabilizing, for example, Hong Kong ending the two systems, one country policy, the treatment of the Uyghurs, the wholesale stealing of intellectual property, and the Belt and Road. I mean, lots of things where the Chinese are changing the status quo themselves, because they’re more powerful and they can. In the case of Taiwan, I would argue the status quo is being changed more precipitously by the Americans, where we are working hard to make the Taiwanese semiconductor company, TSMC, ... [which makes Taiwan] the most important semiconductor manufacturing country in the world. They’re responsible for more than 50% of all semiconductors exported globally.

The United States is working hard to make them a strategically critical company for the US military-industrial complex. [They are building] a \$20 billion fab in Arizona. We want to make them a trusted partner along with American companies for the US Pentagon and the DOD. Given the fact that the mainland Chinese are way behind the Americans in semiconductor production, unlike other components of advanced technology, they desperately need it.

The Americans with export controls are increasingly telling the Taiwanese, “No, you can’t actually sell those to core Chinese companies.” This is, I would argue, if not a red line being crossed, certainly a gray line being breached by the Americans. Now, if you talk to Americans, we have lots of reasons to do that. It’s absolutely indispensable for the United States. We consider the Chinese to be dual-use technologies [not just commercial but military as well]. [The flipside is that...] The Chinese don’t allow our top tech companies to invest in mainland China.

The simple point is that if you’re China and you view Taiwan as a part of your country, the most important national champion of Taiwan is becoming like Lockheed for the US during the Cold War. You can see why the Chinese would find that intolerable. In the short term, they’re ramping up their semiconductor investment domestically as fast as possible. They spent some \$35 billion on semiconductors last year, that’s 4X what they spent the year before, so they know it’s a problem. But I do think that that is likely to precipitate faster and sharper conflict between the US and mainland China over Taiwan, not in the imminent future, not before the Beijing Olympics, for example, probably not before Xi Jinping secures his third term late next year, but certainly in the next five to 10 years. I’m increasingly quite worried about Taiwan, yes.

When Ian says he’s “quite worried,” we should pay attention.

## No Labels

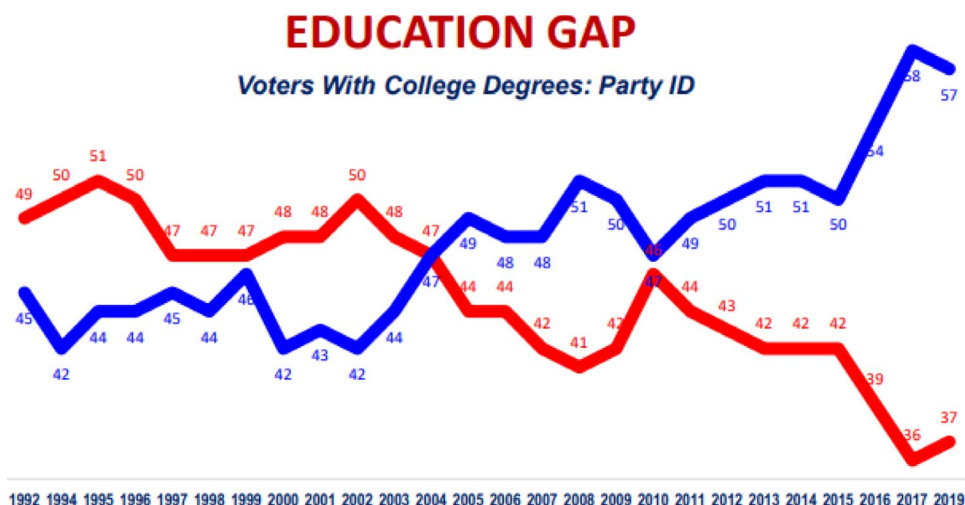
Now we'll turn to domestic politics. My friend Bruce Mehlman, a top Washington lobbyist, is routinely in contact with both corporate leaders and politicians of both parties. He knows what they're thinking about and discussing, and what they consider priorities.

Bruce has become kind of famous for his fabulously informative, entertaining slide decks. A couple of months ago he produced one on the increasing pressure corporate leaders face to get involved in social and political issues. In his view, they have little choice. Neutrality is no longer tenable. (*Over My Shoulder* members can view that deck, and our summary of it, [here](#).)

At the SIC I asked Bruce to put all this disruption in context. He came up with 21 points (for 2021) and I can't possibly summarize them all here. But to give you a taste...

- In the US we have elections every two years, any of which could change the party in control of the Senate, House, and/or White House. This used to be fairly rare. In the 10 election years from 1960–1978, only three times did at least one of those bodies change hands. In the 10 elections from 1980–1998, it happened four times. But now? The House, Senate, and/or White House changed control *9 times* in the 11 elections from 2000–2020. That is obviously disruptive and it's increasingly normal.
- On the other hand, there are issues of bipartisan interest: China, antitrust reform, cybersecurity, supply chain security. Bruce thinks we may see some progress on those, notwithstanding which party has the upper hand.
- But one wild card is the way the political parties are realigning, and in many ways polarizing. The top differentiators are education, gender, geography, and race. All are increasing.

Looking at education, for instance, as recently as 2010 voters with college degrees were almost evenly split between the two parties. Now Democrats have a 20-point lead.



Source: Bruce Mehlman

We can debate the reasons for this and similar splits, but I think we would all agree they are increasing political divisiveness. But some people are trying to restore unity, or at least tolerance.

In my SIC interview with Howard Marks, after we discussed market issues, we talked about his support for a group called NoLabels.org, and the associated “Problem Solvers Caucus” in Congress. The idea is simple: just *solve problems* without the partisan drama.

Howard pointed out, as Bruce did, that frequent changes in control combined with extreme partisanship add up to policy chaos, which is bad for business. The solution has, unfortunately, become a dirty word: compromise. Here’s Howard.

I love when the party in power says, “We should compromise. Let’s do it our way.” That’s not a compromise. A compromise is you don’t get all of what you wanted and the other guy gets some of what he wanted. We have to have that. I think that will eliminate extremists.

The other thing is this, if, let’s say, there’s a bill and with all these changes to the tax system and it’s passed under reconciliation in the Senate by the Democrats 51 to 50, and it has all these extreme changes, the minute you get a Republican Senate, they’ll reverse it. Then if the Democratic Senate comes back, they’ll put it back. Then the Republicans come back and they’ll reverse it again. You [meaning primarily businesses and investors] can’t live like that because we have to have a system that we can depend on to be stable.

[Many of the] the leaders in Congress have expressed the opinion in recent years, “My goal is to pass legislation without any votes from the other side.” That’s not a legitimate goal and it’s not going to lead to a stable environment. You see how that was done with Obamacare. You see how much time the Republicans spent on just trying to undo it. The last tax bill was done that way by the Republicans. Now the Democrats are spending all their time trying to undo it. How about trying to do something which is positive, which is moving forward rather than just trying to undo what the other party did when they were in power.

Look, bipartisanship is an ideal. I think we can move in that direction. No Labels is not sure to work, but I always say to people, “What’s your plan?” There is no plan B for bipartisanship other than No Labels. We get Democrats and Republicans together. We get Senators and House members together, which is apparently even more rare than Democrats and Republicans sitting down together. I think we can move this thing incrementally gradually in the direction of bipartisan solutions, which will be less extreme and which will endure.

No Labels has an evenly balanced bipartisan membership of 58 members of Congress, plus a similar group of about 20 in the Senate. If 75% of the caucus agrees on a bill, then the other 25% have obligated themselves to vote with the caucus, even if they disagree.

The Problem Solvers started with a few members and is growing. Will it ever be the majority? Only in our dreams, but it is a start. And on some close votes, they could be the deciding factor. The group leading the consensus over infrastructure with Biden is essentially the Problem Solvers Caucus and No Labels.

I realize that sounds optimistic in the current environment. I said after the election that Joe Biden plus a Republican Senate might actually get some good things done. Then Democrats took control (barely) of the Senate, which changed the calculus. Or did it? Yes, they passed a gargantuan stimulus bill, much of it (in my view) unnecessary. But their majority in both chambers is so narrow, Biden has little choice but to negotiate with Republicans on other issues.

The process is slow, messy, and frustrating, but I still have hope we could see some good outcomes. Will they be compromises? Absolutely. Whatever you may want, you won't get all of it. But you'll at least get something, while hopefully avoiding the extremes.

That's how legislation used to be done. I think we *may* see it again. If we can return to those days, the US truly can be the world leader it should be—including economically.

I have been listening to some No Labels-sponsored conference calls featuring various Congressional and Senate leaders. Their proposals aren't all to my liking, but then I am basically a small-government, low-tax conservative. That is not currently the zeitgeist for at least 50% of America. Those of us in that camp should seek compromise that keeps us from the extremes on either side. Moving from one extreme to the other simply guarantees the next election cycle will bring a different extreme.

In preparing for my interview with Howard Marks, it was clear he is a Democrat. Yet I found many issues on which we could agree. Listening to both sides on the No Labels conference calls, I once again find substantive areas where we can agree, but others that make me more than a little uncomfortable. In a two-party system with such a close divide, if we are to move this country forward, we're going to have to find ways to work together or we are simply going to watch comity and our civil order collapse.

I typically refrain from taking partisan stands in this letter, but I believe in the work No Labels is doing. We have to once again find a middle ground in this country. Maybe it will take a crisis to get us to do that, but we can start now.

From now on, I will generally focus my own political funding and work in cooperation with this group. I no longer wish to be seen as a Republican or Democrat, but as an American. Perhaps you can go to [No Labels](#), check out their website and listen to a few conference calls (I will once again listen to Manchin this Monday) and make your own informed decision.

Is it everything I want? No, but if you try sometime, you get what you need.

## New York, Travel Plans, and Blood Pressure

I will be in New York the week after next and right now I'm tentatively scheduled to be on the Larry Kudlow show on Fox Business on Tuesday, June 22, along with a lot of other meetings. I plan to be in New York/Philadelphia every 6 to 8 weeks plus trips around the country and eventually Europe and Asia again.

I got a disturbing call from my longtime best friend from the first grade, Randy Scroggins, who told me he is recovering from a stroke. Bluntly, even though he was the picture of health, he had high blood pressure and just didn't deal with it. With physical therapy, his recovery is looking good.

When I turned 59, someone turned up the dial on my blood pressure. My doctor, Mike Roizen at the Cleveland Clinic, called it Late Life High Blood Pressure Syndrome or something like that. I went from perfect blood pressure to uncomfortably high almost overnight. Cheap generic drugs keep it under control. Mike says that of the top 10 things you can do to maintain your health, the first three are blood pressure, blood pressure, and blood pressure.

You can buy an inexpensive electronic blood pressure cuff from Amazon or a local store. For whatever reason, moving to Puerto Rico has lowered my blood pressure and allowed me to reduce my medicine doses basically in half.

I need all of my readers to stay healthy and stay with me. As one of my million closest friends, I would gently urge you to keep checking on your blood pressure, and if it is more than 120/80, talk to a doctor. For what it's worth, I use a drug called valsartan. My goal is 115/75. Without the med, it can easily jump up to 145/100.

And with that, I will hit the send button. Have a great week and start spending some time with friends in the same room and not on the computer.

Your paying attention to politics is not good for my blood pressure analyst,



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