**Joel Litman**

**The End of the End of America**

The USA used to be 40% of global GDP.

4% in 2019. China is at 16% in 2019. The U.S. is now not the number one in the Fortune 500. There are more Chinese companies in the Fortune 500 than U.S.

Headlines are everywhere that China is taking over. But that take is completely wrong…

60% of all the capital in the world is in the U.S. Japan is second at 6.4%. China is 3.6%.

Folks push back and say well, what about Chinese companies trading in the U.S. But Joel says you have to take those out… So he then only used locally domiciled companies (no Alibaba included) in U.S. Take out all banks and insurance. Add Hong Kong to China.

United States still dwarfs China by a magnitude of more than 3 to 1.

But then they said use enterprise value instead of market cap to include debt. The U.S. still is the largest than the rest of the world combined. And a 3 to 1 ratio to China.

GDP is not a good measure of power.

All of those numbers about China taking over are wrong... You can’t trust the basic numbers. The same is true in the standard accounting and earnings numbers.

Benjamin Graham pointed this out 70 years ago, and Munger also notes you can’t trust accounting. All of the data is not scrubbed to level out the results.

So U.S.A. economic profit after debt service, using uniform accounting, was $53 billion in 2002. $285 billion in 2009. 2020 it was $670 billion. Today: $1,440 billion.

Corporate America is crushing it.

China’s is only $184 billion. China is full of very big companies that don’t earn money. So China’s government can’t tax more than they already are.

The U.S. can tax way more to corporations and still have money for shareholders.

It’s crazy to say China is going to take over.

The U.S. is still dominating based on economic profit and growing at a faster clip than China.

Some years there are zero economic profits in the rest of the world while all economic profit is coming from the U.S. 2015 and 2016 show this.

China can’t keep up with the money it is spending. And the U.S. can, though Joel notes he doesn’t think we should… but we can.

220 of the highest economic producers are in the U.S. China is third with 50.

So we’ve seen headlines like “China is taking over the U.S.” from media like *Fortune* Magazine. Who owns *Fortune* magazine? A Thai billionaire that holds 150 Chinese companies. So it’s no surprise we are seeing pro-China material. Yet, Joel says the numbers don’t make sense.

Where do all of the profits in the U.S. come from? Megacaps! Where do megacaps start… as small companies.

46% of megacaps were once small caps. Monopolies don’t innovate. So small companies rise and dethrone.

China doesn’t have a strong incentive for small companies to thrive, which hurts them even more….

China’s venture capital has been declining since 2015. So you can’t match the U.S. when you have no access for entrepreneurship.

Meanwhile, U.S. venture capital has been soaring from 2006 to 2021.

Joel breaks this down with an example between two companies…

Joel gives an example of a company with similar revenue. But then points out company A has an economic profit of $118,800 while company C’s economic profit is $17,000.

Plus, company A pays $37k in tax while company C pays $41,500… double what company C made.

Company A is way better despite earning similar amounts of revenue. And should earn a higher multiple as a result.

Above $140,000 the effect tax rate in China is above 95%.

The underwriting in China is based on how many employees you’re going to higher. There is an IT company that does not have enough cash to cover its debt. Joel notes they don’t have assets… why are they taking out debt?! Well, to higher employees… it’s insane.

That’s why America’s domination will continue. We shouldn’t call it “End of America”… it should be PAX Americana.