



KAVAR Canvas

The science of investing. The art of integration.

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Something to Talk About

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As part of a social studies project in 2008, my oldest child, then a third-grader, was tasked with articulating and itemizing her “platform” were she to run for president. In an effort to introduce the students to the Inner-workings of America’s democratic structure and arguably to explain the maelstrom of media mayhem that harrowed their households, the charge was to present five ideas that should produce not only personal but prodigious and prospectively popular political benefits. Hers read as follow:

- #1: There will be an end to all poaching;
- #2: There shall be freedom to all land and sea animals;
- #3: Little brothers have no say in anything;
- #4: Every child should have a horse;
- #5. Dessert will be eaten before and after dinner.

She clearly expressed special-interest for creatures both domesticated and wild, a penchant for hierarchy – at least by birthright - and a willingness to modify convention in the controlled setting of a family meal.

There have been some household rivals in the “cuteness” category, but this manifest, glue-sticked to an American flag-watermarked poster-board and flanked by my daughter’s head and neck - replete with a red, white and blue power tie – well, this may never be topped.

So it gets me thinking: amidst the mudslinging, super-PAC negative ad production, inter-party backbiting and third-rail side-stepping, have any of our presidential hopefuls offered up anything resembling a “platform”? With less than nine months until Election Day, I personally feel less certain on the planned policies of any aspirant than at any point in the not-too-distant past. To be fair, with an incumbent Democratic president, most of the prominent prime-time pulverizing has been possessed by the Republicans, though last week’s budget proposal by President Obama pulled the parties across their lines in defense or disparagement of the document.

Therefore, in the spirit of the season, I would like to offer a few subtle suggestions to any political hopeful. Much as my daughter expressed a clear persuasion to the animal kingdom, my partialities are especially emphatic as it relates to that of an equally enigmatic entourage - the investor kingdom! Attempting to be profit-seeking yet practical, the following items on my “prosperity platform”, I believe, possess the power to point the economy in a direction conducive to capital formation, compromise and competitiveness. Suffice it to say, this submission is neither exhaustive nor exceedingly detailed – hmmm, maybe I’m more like a politician than I’m willing to admit – but purely plants some stakes from which the economic ends of the political spectrum can convalesce.



Something to Talk About

Capital Formation

Institute a Flat Income Tax for Those with Incomes Above the Poverty Level

The current US budget deficit is a by-product of two obvious issues – as a country, the US: 1) spends more money than 2) it takes in each year. We'll address some spending issues shortly, but the taking in of funds is succinctly spelled out in the 7,500 pages¹ (and 3.4 million words) that comprise the US tax code. Reforming this mammoth is a task of gargantuan proportions and much like eating the proverbial elephant, can be digested only one bite at a time. Such an initiative has failed in prioritization and popularity in the last several presidential administrations and its neglect has fostered the findings of loopholes within technicalities for tax owers to owe less taxes. Interestingly, fully 46% of all US tax filers in 2011 paid no Federal Income Tax² and those exempted were not solely the low-income earners (for whom I believe reprieve provisions should exist). Were we to, say, redirect the same energy and ire behind launching the "Buffett Rule"³ to the elimination of exemptions and a careful consideration of a consumption tax, then a multilateral initiative that focuses on the volume of collections versus their marginal rates of levy could resuscitate total revenues.

Reinstate The Glass-Steagall Act of 1933

For those who are unfamiliar, the Glass-Steagall Act of 1933 divided the functions of financial institutions between commercial banking (borrowing and lending) and investment banking (sponsoring and taking ownership interests in entities). It essentially prevented banks that accepted consumer deposits from engaging in risky investment strategies. The conflicts of interest that this law was designed to prevent were still percolating in 1998 when it was repealed, and many argue that the repeal ratified the morally hazardous behavior by many large banks which contributed to the near-collapse of the financial system in 2007 and 2008.

A reinstatement of the Act could simplify financial entity functioning and isolate the emphasis of profit production. It is difficult to optimize capital allocation if its purposes for extension are subject to disparate time horizons and principal risks. And just think how much more effective Federal Reserve policy could become: consider that the primary goal of keeping interest rates as low as they've been for as long as they've been is to promote a "monetary multiplier"⁴- using cheap money to create more money. By unshackling dormant dollars currently relegated to balance sheet babysitting, the velocity of money could elevate, enhancing the ability of a single unit of exchange to facilitate economic activity far in excess of its denomination.

I think reinstating Glass-Stegall could help big banks better calibrate their risks and fundamentally save them from themselves.

Compromise

Mandatory Congressional Term Limits

This is reasonably self-explanatory, but here are the two primary reasons why I think this is important: 1) The "status quo", which is the mother's milk of most special interest groups, is challenged with regularity; 2) There could be no career politicians. (I would also be in favor of raising the age of eligibility to run for Congressional office from the current - 30 years old to run for a Senate seat and 25 years old to run for a House of Representative seat. Clearly I am getting old!) Both of these reasons support innovation in ideas, lower the barriers to entry, promote merit-based and principled competitive elections and would invariably result in a higher voter turnout.



Something to Talk About

Elevate the Debate on Tort Reform

As a business school student, way back in 1996, I studied a proposal by the Joint Economic Committee of Congress entitled: "Improving the American Legal System: The Economic Benefits of Tort Reform⁵". New Jersey House Representative Jim Sexton served as vice-chairman of the committee and aggregated data and recommendations on ways to restructure the American tort system as it had become, in his words, "far too costly and incapable of administering fair and prompt rewards." Among other contributors, Missouri's own Richard Gephardt proposed the emphasis and exhaustion of all settlement possibilities prior to taking any action in court and removing pain and suffering damages while still compensating victims for actual losses. The committee's collaborators go on to conclude that were their recommendations (the surface of which is merely scratched above with Gephardt's proposal) implemented, "hundreds of billions of dollars could be saved...low-income families and individuals would especially benefit in terms of increased disposable income (as a function of lower insurance premiums, primarily auto)...city governments would be relieved of a substantial portion of their litigation expenses as the growth of tort costs is slowed...and the overall quality of the American legal system can be improved." My fear is that unless a constructive balance is struck between industries and entities sitting on different sides of the court room bench, the result could be an impediment to productivity and economic growth in certain industries and inhibit the catalyzing of intellectual capital (the primary input in our service-based economy) in its most valuable direction.

This is a lightning rod issue in American business and politics and it lacks a clear or easy solution – how do you best balance emotional compassion with economic consideration and how do you ascertain the actuarial value of life, earnings or their collective potential? The Super Committee that was formed this past summer, as part of the Joint Select Committee on Deficit Reduction, was lobbied to include lawsuit limits against doctors, hospitals and device manufacturers, but it fell flat along with all of their efforts. Attaching this important issue as an addendum to broader legislation risks undermining its weight and validates any criticism of its transparency. I would be in favor of re-commissioning a bipartisan committee to independently address the disparity of opinion, giving any compromise the greatest and fairest chance of passage.

Competitiveness

Institute Conscription Service Requirements

This may come across as the most radical of all ideas mentioned thus far, but one that I think could have an immediate impact. Full disclosure: I did not consult with my wife before publishing this and in addition to the aforementioned daughter, we have 2 other children whom she'd just assume keep well out of harm's way! But alas, I think that the concept is sound. After reading a fascinating book entitled, "Start-Up Nation, the History of Israel's Economic Miracle⁶" by Dan Senor and Saul Singer, the sensibility of incorporating some minimal military requirement, as conducted in Israel, began to strongly resonate. The United States eliminated the draft board in 1973 and our armed services become an all-volunteer force. Given that periods of general peacetime have exceeded those of conflict engagement, the case can be made that increasing the numbers in the armed forces is unnecessary and unproductive. However, I would broaden the eligible organizations away from the traditional branches to include such entities as the Merchant Marines and the Peace Corps, among others. I think that this plan could increase national pride and unity, improve life skills, fitness and also mental acuity. In addition, it could extend lessons learned at the conscript's conclusion that flatten business hierarchies and effectively disseminate decision-making to those accepting ownership of the opportunities present within organizations and communities.



Something to Talk About

Annual Federal Budget Balancing Requirements

Legislative stalemates in Washington are as common as rush-hour traffic and perhaps no item has been more gridlocked than whether a constitutional amendment needs to be passed that requires Congress to balance the federal budget. A prudent person would presume that reasonable provisions exist to have offsetting credits and debits on the Federal balance sheet. A prudent person would be wrong, and here is why: Congress can only directly control the expenses (the debits). Income (the credits) is much more variable as it depends not only on the marginal rates set by Congress but also on the magnitude of economic activity (sales, income levels, etc.). As we mentioned above, taxes are the sole sources of income and their irregularity, enhanced in the absence of a consistent and unilateral levy, will intermittently result in a surplus (more income than expenses – last experienced from 1998 – 2001) and historically more common, a deficit (more expenses than income – the current deficit is just in excess of \$1 trillion dollars⁸). Given the extreme economic stimulus measures that the government deployed in the financial crisis of 2007-2008, the budget deficit has widened considerably and the inability or unwillingness of government to extract itself from the fiscal backstop role has exacerbated the critical codependency between entitlement programs and their beneficiaries.

This problem is only worsened by the aging of the critically codependent - those that will depend on the government for income subsidy and healthcare provision for decades to come. This concept and its influence on public policy is a form of “gerontocracy” and is explored brilliantly in a new book by Tony Crescenzi entitled, “Beyond the Keynesian Endpoint: Crushed by Credit and Deceived by Debt—How to Revive the Global Economy.” Mr. Crescenzi characterizes our country and the consideration of our unbalanced fiscal initiatives to be at a cross-road, “...that will determine the outcome of [America’s] debt plight, its economic vitality, and its standard of living.” I completely agree. The subtle and incremental redirect of capital to more growth oriented initiatives is imperative to reduce our budget deficit, reestablish our competitive positioning in the ever-changing economic world order and prove definitively that the historic classification of the US as the standard bearer of constructive compromise for the greater good is befitting for future as well as current generations.

¹ <http://www.fourmilab.ch/uscode/26usc/>

² http://www.huffingtonpost.com/2011/06/28/46-percent-of-americans-e_n_886293.html

³ <http://www.nytimes.com/2012/02/01/opinion/turning-the-buffett-rule-into-law.html>

⁴ <http://www.businessdictionary.com/definition/money-multiplier.html>

⁵ <http://www.house.gov/jec/tort/tort/tort.htm>

⁶ <http://www.startupnationbook.com/>

⁷ http://www.rand.org/pubs/research_briefs/RB9195/index1.html

⁸ <http://www.cbo.gov/>



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