

# **Clarifying the Roles between "We the People", American Business and Oppressive "Shoot from the Hip" Politicians**

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By Brian Sear

"The End of American Capitalism" by Anthony Faiola appeared in the Washington Post on October 10, 2008. Its opening gambit was "The worst financial crises since the Great Depression is claiming another casualty; American-style Capitalism".

Free market capitalism is not the problem.

The primary responsibility for the current financial crisis is political interference with the free market system by politicians from both parties. Not only does the Federal Reserve interfere with the market but the politicians keep changing laws like the "Community Reinvestment Act of 1977" to fit their political agenda. Read "Meltdown" by Thomas E. Woods Jr. to get a fresh and helpful perspective.

The changes in the law enabled some banks and Wall Street companies to take on additional leverage/risk within the law. Pushed by the politicians and seduced by the changes in the law some banks did not see the unintended consequences and changed their lending practices to support the politician's goals of the ever changing Community Reinvestment Act.

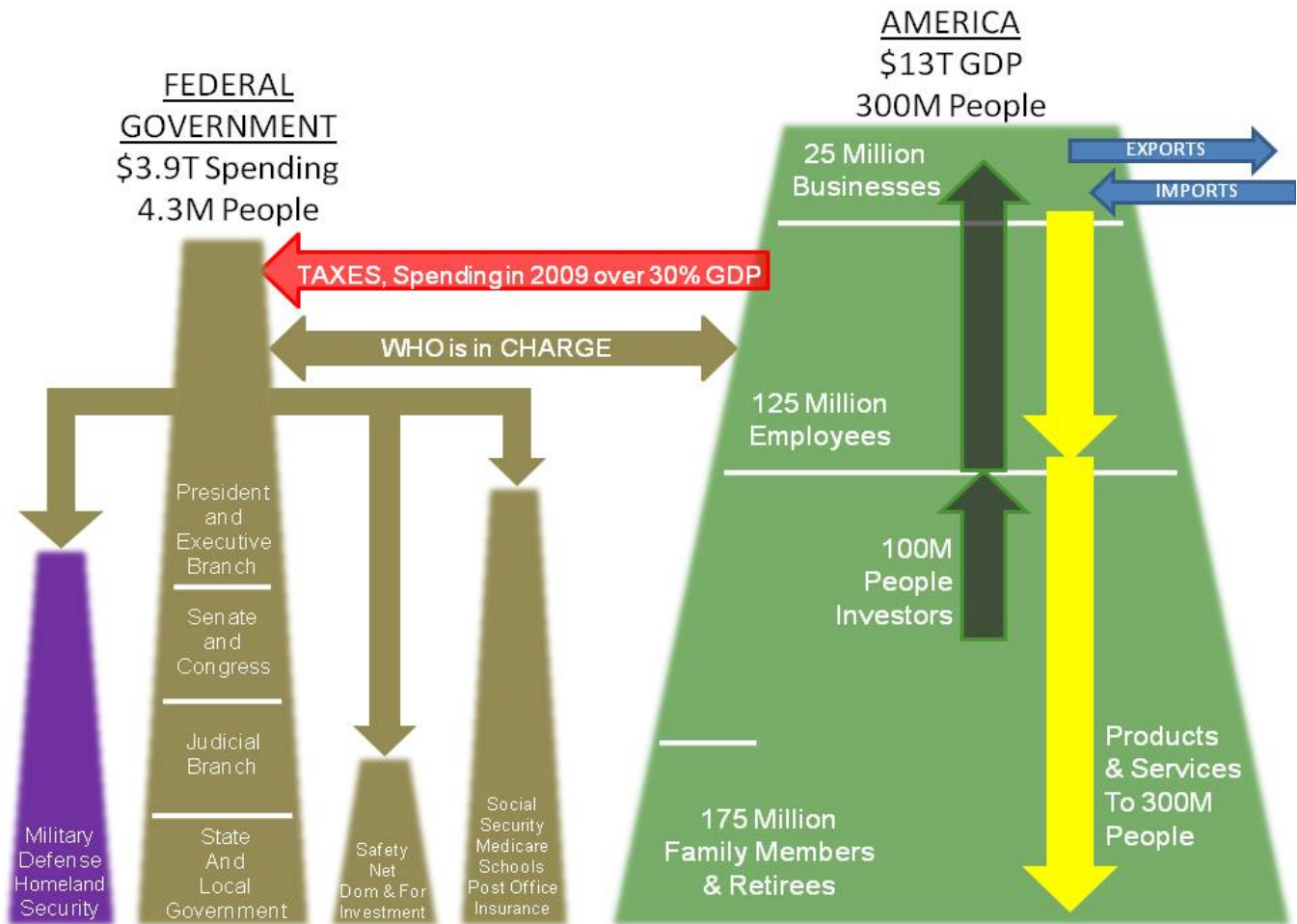
Over a twenty year period it has become clear that the central control of the Federal Reserve and out of control politicians have enabled some willing bankers to allow too much leverage and risk in the system. Panic set in when a "Tipping Point" was reached with a request by the last administration's Treasury Secretary to get Congress to approve a \$700B rescue package.

To persuade our politicians to stop panicking I intend to shed some light on the subject. Because American-style capitalism is being questioned let us review the current crises from an American results accomplished perspective.

Apart from Reagan's two terms our government from Franklin Roosevelt's term in office to today has systematically manipulated the political process to take control and oppress the people. They have attempted to follow the European Communist, Socialist philosophy.

Thank God for the courage and character of the American people and their businesses. With the support of a constitution geared to liberty and freedom and a free market capitalism emphasis, America has grown GDP to more than \$14 Trillion over 3 times larger than any other nation.

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The Founding Fathers of America envisioned a country where the people were free to learn, grow and prosper and the government was expected to serve and protect the people. They intended a representative government to be small and served by civilian politicians not career politicians. Over the first 125 years, until the beginning of the 20th Century, government spending increased to about 1% of GDP. Today, 2009, under the current administration spending is likely to be over 30% of GDP.

A majority of the people support a strong defense from external threats and a strong defense from internal threats in the homeland. About 5% of GDP is considered affordable and appropriate by most of us to protect our citizens. Robert Higgs, Senior Fellow of the Independent Institute suggests 8% would be better to protect Americans in this dangerous world.

The rest of government is considered by me and most people an overhead or drag on the productive output of the people. If we use modern American Conglomerate Corporations as an example we would conclude that overhead to support the businesses should be in the one to six percent range. I have concluded that our government should not spend more than 11% of

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GDP, 5% Defense and 5% overhead and 1% Safety Net Reserves.

In 1972 at the end of Nixon's first term government spending was 4.2% of GDP and by 1980 after Carter's term it was 10.1%.

So what has gone wrong?

First we must recognize that the only wealth and prosperity comes from the 300 Million citizens of America. Self-reliant free people innovate, develop and produce compelling products and services for the free market. The people operate individually or as part of a business team to produce the products and at the same time consume the products and services that they consider beneficial to themselves. Additional prosperity comes from exporting similar beneficial products to the rest of the world. In order to have free open trade we also purchase imports from other countries as well as exporting to them.

Of the 300 Million people about 125 Million are employed in approximately 25 Million businesses. From the money the 125M people earn the government confiscates taxes to pay for defense, government overhead and savings for social security and Medicare. With the remainder the employees spend some of their money to support their families, some to support a lifestyle of choice and any leftover is saved or invested in their future. About 100 Million of these people have become investors.

The remainder money saved and invested by the people is the source of capital for businesses to grow and develop new products and markets. The American people have innovated, worked hard shown strong character to take entrepreneurial risks and have been empowered by the Constitution with its principles of liberty and freedom. Today, thanks to the people's efforts, America leads the world in GDP, prosperity, military strength, freedom and charity.

Second we must recognize that our elected representatives and our government have impeded the people's ability to achieve even greater results. Federal taxes were increased to unhealthy levels on the individual's productive capital normally available to free enterprise businesses and were passed back to the states to be spent on low return programs that supported reelection of the politician. During the great depression of the 1930s the economy stagnated for at least 10 years.

During the 2nd world war most production was focused on the war effort. With the return of our victorious military and a shift to consumer production an economic boom was started.

Politicians realized they could use the tax code, government spending and changes in the law that supported gerrymandered populations to keep themselves in office. Their goals for their careers became in conflict with what's best for America. The career politician was borne.

Suddenly it became popular to bash the businesses that generated jobs growth and prosperity and to pitch to the people that they were second class citizens, down trodden workers and victims of the wealthy. The politicians supported unions to emphasize this theme.

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Unions are bad for business because they interrupt the experience curve and cause companies to fail. Businesses are good for the people because they provide an ever increasing job and income growth opportunity. Unfortunately this behavior by politicians started a cycle of corruption and oppression that continues today.

Where are we today?

We still have a very creative and industrious population that has been impeded by the government. Unfortunately an unintended consequence of the government's class warfare rhetoric is an ever increasing segment that has been indoctrinated to look for a handout. On the other hand we have an out of control government that spends more and more without accountability on what's best for America.

Perhaps the most important concern for "we the people" is that this political process has led to one set of rules (laws) for the people and their businesses and another set of rules for the politicians. Over the years politicians, pandering for votes, have passed more and more regulations to quote "protect the little guy".

Let us consider how a prudent business team growing a \$1B business operates today. The company will have a strategic plan looking out 5 years and a 1 year operating plan to make sure they have enough cash to meet plan. If business is good they may need to raise working capital or development funds for growth. If business is bad they may need to raise funds to deleverage the balance sheet and to carry on with an important program.

In any event they must be on top of the market and business circumstances because they know if they need to raise money beyond short term bank borrowing they will need to follow the laws set up by the politicians and take at least 4 to 9 months to get it done. After careful consideration with management and key employees they decide to raise \$500M.

## **Rules for the Business of the People.**

Here are the steps the business must go through.

1. Consult with their investment banker who will advise them of changes they may have to make to their company in order to have a successful financing. (1 Month)
2. Decide to make the changes and get ready to prepare for a public offering. (1Month)
3. Inform the SEC of the Companies financing objective and prepare a public offering document in conjunction with corporate attorneys and investment banker personnel. This may require several iterations to get SEC Approval. This is a legal quiet period with no Company PR allowed (2 to 6 Months)
4. Get with Investment Banker and plan and execute a road show to enable the investment banker to test the valuation with his brokers. (1 Month)
5. Finalize the price (Value), print the Offering Document, go public and raise the funds. (3 Days)
6. Total elapsed time 4 to 9 months

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## **Rules for the Politician.**

Here are the steps the politician goes through.

1. Make up a campaign promise that sounds good and will get votes (e.g. \$700B for Energy Independence).
2. When elected declare a crises created by prior administration.
3. Under the mantle of a crises propose emergency funding to Congress that must be voted on immediately
4. Rely on partisan leadership in house and senate to prepare a bill.
5. Bring the bill to a vote without the opportunity for politicians to read and debate the bill.

**It is important to remember that the source of funds is the same for the public offering of \$500M above or confiscating taxes for the \$700B proposal by politicians. The 100M investors are the only source, unless the politician borrows funds from foreign investors or prints the money.**

**Why is there one set of slip shod rules for politicians and a second set requiring due diligence for the people's business?**

Some examples of our politician's looking out for the little guy and being careful with his money.

- Our current President asked Congress for a bill to provide \$780B to stimulate the economy focused on job creation. He delegated the content and preparation of the bill to the speaker of the house. The \$780B bill was prepared by Democrats without input by Republicans (30Days). The bill is poorly designed for job creation and appears to favor payoffs to special interests that got the Democrats elected. There was no road-show or town hall meetings and promises that it would be posted on the internet for 4 days were broken. Over 1000 pages were printed and the politicians were given 24 hours to read it which most of them did not. Why are the politicians not held to the same standard, set of rules, that the business must use? The investor is the same. The politician has taken so much power that he thinks it's OK to confiscate \$700B from the same investors in taxes without due diligence yet a business must be prudent and follow the law for \$500M. This is disgraceful behavior. All involved should be fired.
- The Treasury Secretary for the last administration called on Congress for \$700B in funds to buy toxic assets from banks. I understand he only had 3 pages of documentation. Within a week the plan was changed to invest in the banks. The congress panicked and processed the request in less than a week. The source of these funds is the taxpayer who is the same person as the 100M investors. If the same process that the business is required to go through had been invoked the panic would not have occurred and all concerned would have been able to professionally do due diligence and assess the opportunity. Because of these precipitous acts it is my opinion that the public reached a tipping point and stopped spending and started laying off people causing the spiraling down of the economy.

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- The current President has requested a bill to approve funds of \$700B to spend on energy, called Cap and Trade. He has included it in the budget for 2010. In addition he has requested \$600B to start nationalizing health care. These programs should follow the due diligence process placed into law for American business to follow.

In order to reduce government spending to 10%, mandatory programs of Social Security and Medicare will need to be made legally correct investment funds of the people's money and carried as balance sheet items. Because politicians have attempted to cover up a Ponzi scheme by changing the benefit terms from time to time and hope the people will believe in their promises the politicians call them mandatory spending programs. This will be a subject for a future article.