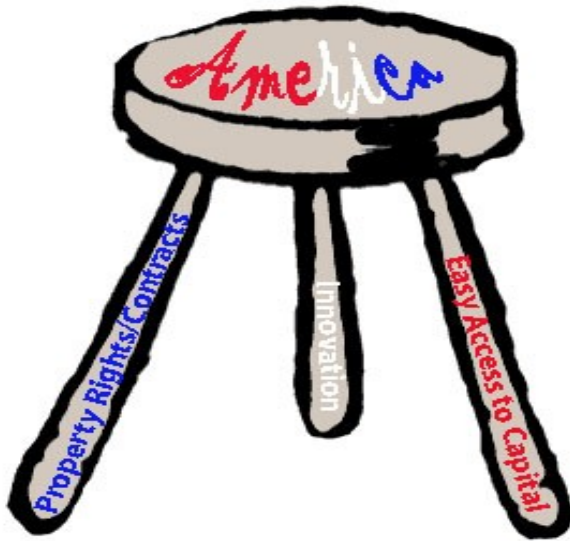


THE VIEW

“Take all the fools out of this world and there wouldn’t be any fun living in it, or profit.” - Henry Wheeler Shaw



The American Economy's Three-Legged Stool

America has been able to prosper because of three very important and vital elements that in many ways make us unique. They are not unknown outside of our shores, but they often don't exist together with sufficient strength to create economies as dynamic as ours. Those three important items are: **innovation, easy access to credit and strong contract and property rights**. There seems to be something

amiss that is keeping our economy from performing to its potential lately. We'd like to dig in a little further to see why our "stool" is not currently supporting our weight.

Innovation

Our 230+ year history shows that American's like to break all the rules and create new ways of doing things. It hasn't been enough to accept the status quo and hope to survive. Our very existence is the result of challenging how things are in preference for how we see them or what they could be. Think of our nation's own founding, things like the cotton gin (Whitney), interchangeable parts (standardization), assembly lines (Ford), electric light (Edison), etc. It's a rich history punctuated by epic failures and grand successes. The birth of the computer and the rise of Microsoft, and more recently, companies

like Google, Apple and Facebook. These are just the newest in a long list of American companies born out of our own ingenuity. Other countries often try to mimic our successes. However, just being first does not guarantee success. In fact, many of our best ideas have been pirated and refined to precision in other parts of the world. The point, however, is that you would be hard pressed to find a history as rich in development and resourcefulness as the U.S. We still have it, and it's something that you often just can't teach in school. This leg of our "stool" seems to be clearly intact!

Easy Access To Capital

Maybe not always the case, but the U.S. has formed deep capital markets over the centuries starting with the [Buttonwood Agreement](#) that formed the New York Stock Exchange in 1792. Securitization is another American innovation that allowed for the pooling of different types of debt obliga-

tions, as well as other assets, that helped reduce risk by spreading it over many individual loans or securities. It has been this type of creativity that has allowed our nation's capital to be deployed efficiently and quickly. It has allowed our nation's inventors and dreamers access to capital to fulfill their ambitions. The banking system has also developed into a powerhouse that supplies much needed capital to thriving and striving businesses.

That's our history, but our current state is not as robust as many imagined. The same parties that allowed our country's financial system to become precariously overleveraged are now working hard to shore up and right the ship. New rules, higher capital standards, and more invasive oversight are all conspiring to rebuild what is broken. More often than not it is impeding capital flows, slowing transactions and distracting the individuals that run our institutions from their primary function of lending. The securitization process is a

mess and the relatively new emergence of various types of [derivatives](#) is striking fear into the hearts of many a regulator. This leg of the stool is weak and in jeopardy of breaking if we don't get a handle on it quickly. Reforms are not enough. We need new thinking and insight to renovate this essential second leg.

Contractual Obligations and Property Rights

Europe is the primary model for our contractual rights here in the U.S. We have developed strong personal and private property rights. These rights often provide our private citizens robust protections from property confiscation or abuse. Our contractual law history and court system, although flawed, provides protection from patent infringement, contract breaches and product failures to name a few. It provides remedies to injured parties. *It gives corporations and individuals the confidence to invest and pursue their best ideas.* Without

this strong framework investors become reluctant, lenders won't lend, and innovators sit on their creations because their risks cannot be defined. In short, this leg of our stool is as important to the health of our economy as are the other two. In countries where property rights and contract laws are weak their economies have been very slow to develop. It is not a surprise to investors who fear the confiscation of their capital that this is the case.

Unfortunately, the U.S. has abrogated a whole litany of contracts since the financial and housing crisis starting in 2008. Just ask the bondholders in General Motors, the taxpayers with regard to the banks and insurers (particularly AIG), homeowners who really own their homes and those that really don't but still live there (rent free). Is it any wonder, without any clear contractual rights, that investors and lenders will not part with their money? It shouldn't be. This is the most neglected and damaged leg of our stool. It is in seri-

ous need of repair. Yes, it hurts some people and protects others. But that 's the point. It is well defined. It 's a known. It can be worked into the formula for investing and calculating the risks. If there is uncertainty to whether or not a contract can be enforced or property rights protected *capital will be reluctant to move.*

My partner Ken Hobbs has written extensively on the velocity of money ([see page 14](#) of the most recent Tech Spotlight). This is a symptom of an economy who 's ease of access to capital and weakened contractual rights is the impediment to a more vibrant future.

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