



Something to Think About

The American public goes through the same spectacle every four years; actually, some would argue it is every two years. Suffice it to say, we go through it a lot. 'It' meaning campaign promises and ranting & raving about how the 'other party' is wrong or evil. This year seems to be just like every other election year, but on anabolic steroids.

Personally, I don't think either party is mean spirited or wants to destroy America. Nor do I think America has to become 'great again,' because we already are. We are in an enviable position where the only real example we have is, well, ourselves. Some of us want the government to 'do more,' and others want it to 'do less.' I will let you decide just what that means for you.

What if both groups are right? That the government can do both more and less at the same time? Truly, that would be fantastic. Wouldn't it?

I have run the data. I took overall Federal government receipts for every calendar year going back to 1949 (through 2015) and compared it to the nominal GDP number for that year. Care to guess what I found? That's right; government revenue goes up in lock step with GDP. In fact, my handy dandy Excel add-in function suggests there is a +0.995278 correlation between these two data points. For all intents and purposes, that is perfect correlation.

You know what else? We have had any number of different tax rates, policies, and schemes over the years, and they all shrink to irrelevance when staring at the data in the spreadsheet.

Simply put, the absolute size of government goes UP with the absolute size of the economy. This shouldn't be any startling revelation. In fact, it should be intuitive. If you want the government to have more money to do more things for more people, you also want aggregate GDP to grow as rapidly as possible, whether you realize it or not. The reason is simple: the ONLY proven way to grow government revenue that is NOT subject to debate is to, again, grow the economy.

As such, this should be every candidate's primary campaign promise: "I will do everything within my power to grow the size of the US economy." Now, how they would intend to do that is anyone's best guess.

Let me ask this question: what is the average size of a jockey? You know, those guys that ride racehorses. Well, the Kentucky Derby sets a limit of 126 lbs. a colt or gelding can carry in the race. This would include about 7 lbs. of equipment. So, the average jockey would weigh no more than 119 lbs., at least on the first Saturday in May. By comparison, the CDC estimates the 'average' weight for an American male to be 195.5 lbs. It is 166.2 lbs. for females.

Now, if there weren't a weight limit (in this case 126 lbs. at the Kentucky Derby), do you think trainers would put, say, a 250 lb. man or a 200 lb. woman on the back of a horse for a stakes race? Why not? It is pretty obvious, isn't it? First, that size jockey could, and probably would, severely hurt the horse. On top of being animal cruelty, no owner or trainer would want to damage what is a substantial investment, in both time and money. Second, what are the chances the horse would run as rapidly, carrying that much weight on its back? Can you run or walk as fast with a 40 lb. weight on your back as you can completely unencumbered? Of course not.

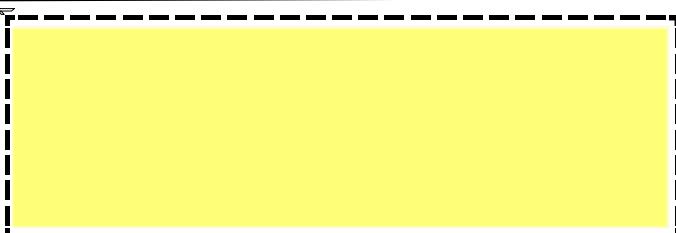
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The goal is to find a rider who is physically strong enough to control a 1,200 lb. racehorse while still being small enough to limit the amount of weight the horse has to carry. To that end, Willie Shoemaker, arguably the most famous of all jockeys in my lifetime, weighed between 95-100 lbs. during his prime. The Shoe was a small fellow, even by most jockey standards.

In so many words, if you want to win race horses, you limit the amount of weight the horse has to carry on its back around the track. That makes sense.

While it would seem like I am shifting gears, I would like to cut and paste the first several paragraphs of a short story by Kurt Vonnegut entitled “Harrison Bergeron.” It is either a dystopian or utopian vision of the future depending on your definition, and I will leave it to you to decide which it is. Admittedly, it is hyperbolic, but Vonnegut’s point is clear enough in the reading of the story:

“THE YEAR WAS 2081, and everybody was finally equal. They weren’t only equal before God and the law. They were equal every which way. Nobody was smarter than anybody else. Nobody was better looking than anybody else. Nobody was stronger or quicker than anybody else. All this equality was due to the 211th, 212th, and 213th Amendments to the Constitution, and to the unceasing vigilance of agents of the United States Handicapper General.

Some things about living still weren’t quite right, though. April for instance, still drove people crazy by not being springtime. And it was in that clammy month that the H-G men took George and Hazel Bergeron’s fourteen-year-old son, Harrison, away.

It was tragic, all right, but George and Hazel couldn’t think about it very hard. Hazel had a perfectly average intelligence, which meant she couldn’t think about anything except in short bursts. And George, while his intelligence was way above normal, had a little mental handicap radio in his ear. He was required by law to wear it at all times. It was tuned to a government transmitter. Every twenty seconds or so, the transmitter would send out some sharp noise to keep people like George from taking unfair advantage of their brains.”

It is clear Vonnegut would contend the only way to remove inequality is to bring the ‘top’ down, as that is much easier than bringing the bottom up. The same could be said in economics. Using data from an academic paper by Stephen Broadberry in the Department of Economics at the University of Warwick and Alexander Klein in the Department of Economics at the University of Kent (both in the UK), consider the following:

In constant 1990 dollars, the per capita nominal GDP of West Germany in 1950 was \$4,424, and it was \$3,127 in East Germany. By 1990, West Germany had a GDP per capita of \$18,537, whereas the number had grown to only \$5,704 in the East. That is a vast differential from roughly the same base, geography, and similar demographics. While there were, and are, regional differences in the German economy, the primary difference between the two countries (East and West Germany) was the one had a market based economy and the other was centrally planned.

While I don’t believe anyone is seriously suggesting shifting to a command economy in the United States, I am not so

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sure either party is terribly interested in unfettered economic growth. Consider this piece from an article written by a James L. Gattuso at the decidedly (admittedly) pro-business Heritage Foundation which was originally posted on the Internet on March 25,2008:

“In this election year, Americans will hear a lot about taxes. Candidates for everything from President to vil-lage alderman will present their plans on who should pay and how much. Yet in the political frenzy, one type of tax will almost certainly be overlooked: the hidden tax of regulation. The federal government alone enforces thousands of pages of regulations that impose a burden of some \$1.1 trillion—an amount that is comparable to total federal income tax receipts.

And the cost of regulation is getting higher. Despite the claims of critics-and some supporters-of the Bush Administration, net regulatory burdens have increased in the years since George W. Bush assumed the presidency. Since 2001, the federal government has imposed almost \$30 billion in new regulatory costs on Americans. About \$11 billion was imposed in fiscal year (FY) 2007 alone.

Even more are on the way. Historically, the amount of regulatory activity surges dramatically in the last year of a presidential Administration, whether Repub-lican or Democrat, as regulators, freed from normal political constraints, clean off their desks. A similar surge looks likely for the final year of the Bush Administration unless the President and other policymakers keep a tight hand on the regulatory leash.”

Then there is the tax code, and the sheer cost of complying with it. Even the IRS suggests it is ridiculous, although it certainly doesn't say it. Please follow: https://www.irs.gov/pub/tas/08_tas_arc_msp_1.pdf.

Check that out, from the dern IRS website. Look at Note 4 on page 4:

“The IRS and several outside analysts have attempted to quantify the costs of compliance. For an overview of previous studies, see Government Accountability Office (GAO), GAO-05-878, Tax Policy: Summary of Estimates of the Costs of the Federal Tax System (Aug. 2005). There is no clearly correct methodology, and the results of these studies vary. All monetize the amount of time that tax-payers and their preparers spend complying with the Code. The TAS estimate of the cost of complying with individual and corporate income tax requirements (and thus excluding the time spent complying with employment, estate and gift, and excise tax requirements) was made by multiplying the total number of such hours (7.0 billion) by the average hourly cost of a civilian employee (\$27.54), as reported by the BLS. See BLS, U.S. Department of Labor, Employer Costs for Employee Compensation – December 2006, USDL: 07-0453 (Mar. 29, 2007) (including wages and benefits), at http://www.bls.gov/news.release/archives/ecec_03292007.pdf. The TAS estimate of compliance costs as a percentage of total income tax receipts for 2006 was made by dividing the income tax compliance cost as computed above (\$193 billion) by total 2006 income tax receipts (\$1.4 trillion). See Office of Management and Budget, Budget of the United States Government – Fiscal Year 2009, Historical Tables, Table 2-1. TAS's estimate that compliance costs amount to about 14 percent of aggregate income tax receipts falls within the range of previous estimates. For example, Professor Joel Slemrod has computed that compliance costs constitute about 13 percent of income tax receipts, while the Tax Foundation has computed that compliance costs constitute about 22 percent of income tax receipts.”

To put that estimate for 2007 in perspective (\$193 billion), Alabama's Gross State Product was roughly \$170 billion in 2006 AND was the 25th largest state economy that year. Obviously, that is a lot of money.

Still, people could/would counter regulations and a complicated tax code provide jobs and paychecks for a lot of folks. To be sure, they absolutely do. However, I would argue complying with all these rules doesn't add capacity, and therefore doesn't add to our output and ultimately revenue. To that end, I have yet to have a client who pays us a fee due to on our diligence in complying with pertinent regulations in our department. It is kind of like painting your baseboards a certain color. This won't really ADD to the value of your home, BUT a bad color choice or chipping paint could detract from your home's value during the sales process. It is maintenance, and doesn't add any equity to your balance

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sheet. Sure, my wife will and has argued with me otherwise; however, we have never bought a house based on the interior paint color.

All of this has a point.

This morning, the Bureau of Labor Statistics (BLS) announced the US economy created 156K net new jobs during September and the Unemployment Rate ticked up to 5.0%. This is to economic data what a scoop of plain, store bought, vanilla ice cream is to dessert. Where the rubber meets the road, it is yet another report detailing the mediocrity of the US economy. Hey, you can like Breyer's vanilla all you want; however, you will never convince me it alone is better than a slice of Italian cream cake. Not a chance.

This is important, because our economy arguably has more headwinds than tailwinds right now. First, and this doesn't get as much press as it should, is the aging of our workforce and the strain it will put on resources moving forward. Unfortunately, this won't really abate until 2030. Second, is a global economy awash in debt which it will never repay in full. Third, oh, I am already getting long today, so I will save you the proverbial wall of worry.

Suffice it to say, I can't make a strong case for a sudden surge in GDP growth at this time. That isn't to say I think a severe downturn is immediate. No, but we haven't had 3% growth in any calendar year going back to 2005, over a decade, and there is no reason to think this will suddenly change WITHOUT changing what it is we are doing.

While I am a big proponent of laissez faire economics in theory, it is just that: theory. It is pure idealism, and, like most idealistic things, goes completely against human nature and reality. We definitely need some regulations to keep us from hurting each other, which is, unfortunately, human nature. However, going back to the horse analogy, if you want to win the Kentucky Derby do you: 1) sneak more than 126 lbs. on your animal's back, or; 2) keep it as light as possible while maintaining some control over the animal?

According to George Washington University, and plenty of others, there are almost 180,000 pages in the Code of Federal Regulations. While indentation and font size matter, the accepted number of pages in the Bible is around 1,200. So, what is that? 150? Now, the King James version has 783,137 words in it. Multiply that by 150 and you come up with 117,470,550 words in the CFR, and it is constantly expanding...by about 3,000 pages per year since 2000.

I have read a professional typist can average upwards of 75 words per minute. If so, it would take them roughly 26,105 hours to type out the CFR. Okay, so we assume a 40-hour work week...that is 652.61 weeks. The average worker will put in, what, 49 weeks during the year....so, 13.32 years for a professional typist doing nothing but typing at full speed 40 hours a week. Over that time, the CFR would have grown an additional 40,000 pages...which would tack on another 3 years in the process. At a still very respectable 60 words per minute, it would take over 20 years of non-stop typing. At 40 words per minute, roughly what I type (and I type better than most)? I would have started in Baltimore in 1991, and would just know be finishing up.

Come on. No one can keep up with all of that nonsense, and no one can accurately estimate the amount of time and money spent complying with the rules. Shoot, if the IRS publishes reports suggesting complying to their own rules cost an estimated \$193 billion in 2006, I can only imagine what full compliance of ALL rules and regulations would

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be a decade later. Inflation, such that it is, alone would take that number comfortably north of \$200 billion. Wow. Paying our taxes costs over \$200 billion?

In the end, the American public goes through the same spectacle every four years; actually, some would argue it is every two years. This year, the Republican candidate, Trump, has suggested he would get rid of upwards of 70% of Federal regulations. Hey, that sounds like a good idea, but which ones? And who decides? The K-Street lobbyists? I am not sure I like that idea either.

It is one thing to decry regulations in newsletters and on rostrums. It is quite another to seriously do something about it in order to unfetter the US economy and grow government receipts. There are a lot of schools that need better funding; a lot of potholes to fill; a lot of pensioners who are depending on their Social Security; a lot of courtrooms to maintain, and a lot of bad guys around the world to keep in check, etc. So, who is really going to sit down and do it? Tell the members of Congress to tell the special interest groups to take a powder? It is really going to take a special person(s) to have the backbone to get that done.

To that end, we don't have the luxury to be mediocre when it comes to economic performance. We have to win the race...we have to be Secretariat or Man O' War. However, even those horses wouldn't have been able to win with the weight of over 117 million words on their backs.

....that would be about 300 lbs., at least. Hey, that is still less than Chris Christie.