

Something to Think About



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COMMON CENTS

Last Friday afternoon, I made a 3.5 hour long economic presentation to a group of CPAs who had waited until the last minute to get their continuing education credits for the year. You could say I was their penance, if not punishment. While I would like to think I am a decent public speaker, it is nigh impossible to keep everyone's attention for that long on, admittedly, pretty dry stuff.

Unless someone asks an extremely direct question during the Q&A, I typically try to avoid discussing politics. However, with so much time to kill and it being an election year, I touched on the highlights of the primary candidates' economic platforms. The devil is always in the details, and campaign promises are worth about as much as a box full of mosquitoes.

If you have read this newsletter for any length of time, you know my opinion(s) on simplifying the tax code and reducing the corporate income tax rate. If you haven't, simply put, I am for both things. As a matter of fact, if I were running for President, they would be at the very top of my economic agenda, if not the only things on it.

On this one issue(s), Mr. Trump and I are in agreement. When I said as much, you would have thought I was spouting off heresy to a group of clerics, at least to a couple of folks near the back. Their sticking points? Wealth and income inequality.

At the break, one of the disgruntled approached the rostrum, and, brother, I could tell he wasn't approaching to be congratulatory. Far from it. Let me give you a taste of our conversation:

"You mentioned how cutting corporate tax rates would lead to a higher stock market if P/E ratios remained constant."

"Yes, I did."

"That would just lead to even greater inequality in the country, as folks like Warren Buffett make billions and the average guy makes only a fraction of that."

"Admittedly, it would lead to greater inequality in absolute terms, but everyone who has a 401k plan, IRA, or who participates in some form of pension will benefit. If you are up 10-20% in your 401k, what difference does it make if Warren Buffett is also up 10-20%?"

"But, that is just using the tax code to transfer more money out of the economy to the elite."

"How could that be IF you are also making more money? If you are better off due to a change in the tax code, why do you care if someone else makes out a little better than you? You are still better off, right?"

His cheeks were red and he couldn't look me in the eye, but he kept going.

"What if there are 100 people in a room, and someone came in with \$1,000? They gave \$1 to 99 people and the rest to the remaining person. YOU were one of the ones who got \$1. I suppose *you* would think that was fair, wouldn't you?" His last sentence dripped with as much sarcasm as he could muster, and I truly believe he thought he had one over on me. However, I gave him this:

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I want that Boris' goat should die.

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"You know, I understand where you are going, and maybe I would be a little perplexed why one person got \$901 and I only got the \$1. However, you know, I still would be happy with the \$1 I didn't expect. After all, that is \$1 I didn't have to earn and save. \$1 someone gave me, and, I repeat, gave me for doing nothing. So, yeah, I would be okay with that."

"No, you wouldn't. You would be ticked off like everyone else."

"Why would anyone be ticked off about getting \$1 for free? That doesn't make any sense."

"Yes, it does. It isn't fair one person got so much more than everyone else."

"So...are you telling me you wouldn't take the dollar if the dollar was given was given to you?"

"Of course I would."

"Then what are we talking about here?"

Now, I don't believe I had ever met this individual prior to this. If I had, I didn't remember having done so. However, everyone in attendance was a CPA, so it shouldn't have been an audience of numerically challenged individuals. So, if 30-something CPAs, which he appeared to be, are hot about this topic, I imagine it is pretty deeply rooted throughout our society.

Some years ago, actually 16 of them, I read a Thomas Sowell column which relayed a variation of the above story. In his "Envy versus Resentment" piece of June 23, 2000, Sowell wrote:

"THERE IS AN OLD STORY about two Russian peasants, Boris and Ivan. Both are poor as dirt, the only difference between them being that Boris has a goat and Ivan does not.

One day, a good fairy appears at Ivan's hut and tells him that she can grant him just one wish -- but that it can be anything he wants. Ivan says, "I want that Boris' goat should die."

Variations on this story have appeared in other societies, so this is not about Russians. It is about human nature. The attitude it illustrates is very much part of the politics of our time -- the politics of envy and resentment.

Envy probably does less harm than resentment. If Ivan had merely envied Boris, he could have asked for a goat of his own -- or a herd of goats or a million rubles. But he resented Boris' good fortune and wanted to bring him down. That is the attitude behind many policies of our own times, from estate taxes to anti-trust laws."

To be sure, neither envy nor resentment are unique to contemporary America. Although I hope I am wrong, I am concerned they are more prevalent than they have been at any other time in my life. To that end, over the years, I have noticed a change in the questions, and comments, I get after my talks. Speaking in broad brushstrokes, they have taken

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on a more social tone, as opposed to strictly economic dollars & cents...the bottom line. When I started doing this, no one asked about environmental impacts, income inequality, and things of that nature. No one took me to task over things like suggesting lowering corporate tax rates would be good equity investors. No; people were more concerned about the proverbial bottom line.

Is this shift in attitude good? You know, it is as long as it doesn't manifest itself in resentment which clouds economic judgement. Even more than the Federal Reserve and Federal budget deficits, this is something that concerns me in regards to our long-term economic health as a nation. I guess you could say I am worried about us vs. them.

The problem with an us vs. them mentality is the definitions are often poorly defined, particularly when it comes to income and wealth. It is rarely as clear cut as, say, 48-year old, Caucasian, married, Presbyterian males who write vaguely economic newsletters, work at a bank, and live in central Alabama versus, well, take your pick. Besides, you can't always be "us." In fact, you are more often than not "them."

Take the fellow from my presentation last week. He would have been an accountant of some variety, otherwise there would have been no reason for him to have been in attendance. So? Well, according to the Bureau of Labor Statistics (BLS), the following data points are the wage estimates for the 13-2011 industry code, 'Accountants and Auditors,' as of **May 2015**:

Percentile	10%	25%	50% (Median)	75%	90%
Hourly Wage	\$19.90	\$25.04	\$32.30	\$43.04	\$57.18
Estimated Annual Wage	\$41,400	\$52,090	\$67,190	\$89,520	\$118,930

Considering the BLS estimates the median hourly wage for ALL jobs in the United States to be \$17.40 and the median annual wage to be \$36,200, even the lowest paid person hearing my voice last Friday probably would have earned comfortably more than over 50% of the overall workforce. As a result, for all intents and purposes, everyone in that auditorium was "them," whether they realized it or not.

Now, how do you think that man would have reacted had I said the following: "How about we take the first step in addressing income inequality in the country by taking your salary down to the median for all jobs?" I would be willing to bet you a plug nickel he wouldn't have thought that to be a very good idea. Why? Because he probably doesn't see himself as part of the problem...it is those other guys, those over there...you know, THEM. Why are you looking at me? Look at them! Stop staring at me!

To be sure, we ALL have our personal definitions of who "them" is, and there is likely a fair amount of overlap. Personally, I think our society values professional athletes way too highly, and the salaries in the 'major' sports are absolutely ridiculous. Further, the whole thing with the Kardashians escapes me; I just don't understand why we continue to throw money their way. Even so, I don't want the Congress or the IRS to determine how much these people can make, because they will eventually get around to me and, yes, the guy who tried to give me 'down the road' last week.

In essence, yeah, I see some abuses, or what I perceive to be abuses, out there. We all do. However, that doesn't mean the markets are treating "US" unfairly, just because others are 'unjustly' enriched using our definition of what that actually means. Seriously. Just because Kim Kardashian has become outrageously wealthy for no apparent reason (to me), doesn't mean I should be unjustly enriched in response.

In the end, it seems we are at a tipping point. Are we happy, envious or resentful for other people's success? The first two can unleash positive energy, but the last can be ruinous to society as it is a very slippery slope. So, don't be an Ivan.