

Hello Everyone,

When buying and selling are controlled by legislation, the first things to be bought and sold are legislators - PJ O'Rourke

Why did the Tea Party fail? It wasn't that they were bought off...at least I hope not. I believe, they fell prey to (among other things) two political realities...logrolling and regulatory capture.

Even if you are not familiar with the terms, these are concepts with which you are likely familiar. Thus, the goal of today's missive is to make the connection between these realities and investments.

I hope it makes you a better investor.

Signed, Your Never-Dreamed-Burisma-Would-Become-Part-Of-My-Everyday-Vocabulary Financial Advisor,

Greg

KKOB11.18.2019 Part 2 Politics, Governments, Economies & Investments what Happened to the Tea Party?

Bob: So, Greg, we are on the theme of the government and the markets and last Friday we talked about "time lag" ...meaning by the time government recognizes (and acts) on a problem, the problem has either:

- Gone away,
- Morphed into another problem, or
- Grown so big legislation won't fix it.

All of which frustrates not just investors, but all Americans.

Greg: Right. So, today, let's pile-on and look at look at two other government practices that investors should know about. Oh, and we'll use the Tea Party movement to make our point. You remember the Tea Party, right?

Bob: Sure. It was a group of conservatives that swept into office 10 or 12 years ago, promising fiscal responsibility, reduced debts, and less government spending. But you don't hear much about them anymore... and not much of what they promised happened.

Greg: Right. So, what did happen? These were smart people with good intentions. Did they suddenly lose their integrity once they got to DC? Were they lured by power? Did they sell out?

Or, did they hit two political blocks of granite called logrolling and regulatory capture?

Bob: OK, before you go on, you'll have to explain those terms.

Greg: Sure. Logrolling is a political term used for the trading of votes or favors to get things done. Davy Crockett supposedly coined the term first. And what he was referring to were neighbors helping each other roll logs. After all, one guy rolling a log isn't very easy. Thus, one politician helping another became logrolling.

Anyway, the Tea Party members quickly found out, they couldn't get anything done without giving something back in return.

Bob: And trading favors doesn't usually involve less spending. So, I can see how the Tea Party's dreams were quickly popped. So, what does regulatory capture mean?

Greg: This is the practice whereby regulatory agencies neither enforce--- nor pursue--- the original intent of legislation.

In short, special interest groups that lose at the legislative level have figured out they can win at the bureaucratic level by writing the regulations for their benefit. Basically, the regulations end up serving the special interests over the greater public good.

Therefore, even if the Tea Party had been able to pass meaningful legislation, once those laws got to the bureaucracy, I'm convinced the special interests would have distorted the Tea Party's intent beyond recognition.

Anyway, the point I want to make here is logrolling and regulatory capture exist in *the private sector*---but in much different ways.

I have no doubt private businesses work together. They trade favors. But they see rolling the log as a way to become more efficient and profitable. That's different from amassing power.

For example, it makes sense for Lowes or Home Depot to contract with local vendors to install dishwashers or window blinds. Rolling together offers better service at lower prices. Lowes may lose some

control/power, but the company and the public win.

You rarely see *government* cede control or power like that.

And with respect to regulations, businesses have those, too. But their standard operating procedures, are meant to get things done better and faster. In other words, you don't purposely write a company policy to favor human resources over the accounting department. The goal is to work as a team.

This is the exact opposite of government where the incentives are to grow at all costs and to reward friends and punish enemies.

Bob: So, this is why the Tea Party failed. They tried to bring a business mentality to government. But since government values power over efficiency, the incentives were in conflict.

Greg: Right. So, to close, when we don't get what the politicians promise... please don't think we can solve our problems if "only we elect the right people". The Tea Party movement proved that's isn't necessarily true. There is consistency of policy that transcends party politics.

The only solution is to do what the Founding-Fathers and Ronald Reagan implored...keep government small to begin with.

Bob: (Laughing) It may be too late for that! I like this series. Let's pick it

up again on Friday. Until then, how do people reach you?

Greg: My number is 508-5550. Or go to my website at zanettifinancial.com.

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