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What Kind of Society is Good for Business and Investing?

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FOSTER S. FRIESS, a graduate of the University of Wisconsin, became Director of Research for Brittingham, Inc., a New York Stock Exchange firm, after spending two years in U.S. Army Intelligence. In 1974, he started his own firm, Friess Associates, which now manages more than \$7 billion in assets for clients that include the John M. Templeton Foundation and numerous Fortune 500 corporate pension plans. Friess Associates' flagship Brandywine Fund has appeared on every listing of *Money Magazine's* "World's Best Mutual Funds"; *BusinessWeek* has called Mr. Friess the "longest-surviving successful growth stock picker"; and Ron Insana of CNBC dubbed him "one of the last century's great investors." Books highlighting his insights and achievements include *Secrets of the Investment All-Stars*, by Kenneth A. Stern, and *The Entrepreneur's Creed: Principles and Passions of 20 Successful Entrepreneurs*, by Merrill Oster, Mike Hammel and Bill Bright. In 1992, Mr. Friess and his wife established the Lynn and Foster Friess Family Foundation, a \$100-plus million grant-making foundation that focuses on one-on-one mentorship and targets small, entrepreneurial, faith-based urban charities. Among his many honors and awards have been the first Muhammad Ali Humanitarian Award in 1999, the Council for National Policy's Rich M. DeVos Free Enterprise Award for Exceptional Leadership in 2000, and the Humanitarian of the Year Award in 2001.

The following is adapted from a speech delivered on May 11, 2002, on the Hillsdale College campus, upon receiving Hillsdale College's Adam Smith Award.

In thinking about what kind of society is good for business and investing, we need to remember two things. First, enlightened self-interest is a powerful and positive force for good in a free society. As Adam Smith said, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." In this light, it is a worrisome fact that Americans are becoming increasingly dependent when it comes to making the decisions that most affect their interests – e.g., decisions about caring for their health, educating their children and spending their earnings. If we are to keep America and its economy on the right track, we must find a way to return to our citizens more control over their lives.

Second, love of neighbor is the *most* powerful means of changing things for the good. It was with this in mind that President George W. Bush asked each of us in his 2001 inaugural address "to do small things with great love." Too often we create and depend on grandiose bureaucratic programs to address social problems and in the meantime allow ourselves



to forget about real people. For those of us with faith, it is enough to remember that we are called on by the Lord not to eradicate poverty, but to help our neighbor. For all of us, it should be clear enough by now that bureaucratic programs, such as the 40-year-old War on Poverty, tend to be counterproductive, whereas one-on-one efforts and private and local efforts – what I call lighthouse missions – bear real fruits.

Let me tell you a story to explain what I mean by lighthouse missions: An elderly couple living in a small coastal village approached the lighthouse keeper one day and said, “We are out of oil for our home, and it is cold.” He gave them oil. The next day a young couple petitioned for oil for their lamps so their children could study after dark. He gave them oil as well. But as a result of these and other well-meaning deeds, he ran out of oil, and without the light that it was his duty to provide, two ships crashed on the rocks killing hundreds of sailors.

It is not good or productive to allow ourselves to lose focus on our individual lighthouse missions, no matter how well meaning the thing that distracts us. And the same general principle adheres politically: Our local, state and national governments have lighthouse missions – responsibilities or duties that they are best suited to perform, and on which they should focus. In the case of the national government, these responsibilities are assigned by the Constitution. For instance, it is assigned to provide the whole people a defense against foreign threats, for which it is uniquely suited. It is not, on the other hand, tasked with providing individuals with their various unique needs. And when it attempts to do the latter, it usually succeeds in making things worse.

Let me speak of just two examples – healthcare and education – before returning to the idea of individual responsibilities.

Healthcare Common Sense

Our current healthcare system is neither efficient nor cost-effective. To fix it, we must cease to treat patients and potential patients as captive victims. Instead we must allow them to be informed and independent consumers.

The first step toward this goal is to restore the direct connection between the recipient of

healthcare and the doctors and hospitals delivering the service. Doctors should not receive payment from an agent who did not receive the service. Nor should recipients of service be limited in selecting where or from whom they receive it.

Second, the idea of health insurance must be divorced from the idea of prepaid healthcare. Think about this: If car insurance operated on the same basis as health insurance, we would be reimbursed for windshield wiper blades, headlights, oil changes, tires and gas.

Not surprisingly, we find that the source of much of the difficulty with healthcare reform exists at the national level, where individual needs are not and cannot be best understood. Changing a single line in the Internal Revenue Service code would allow the needed reform to proceed. That one line would allow individuals, rather than employers, to deduct health care benefits. Instead of sending money to HMOs, employers would deposit money into employees’ individual healthcare accounts, where it would be non-taxable and portable from one job to another.

These accounts could be called “Spend-It-or-Keep-It” (SIKI) accounts to emphasize their key feature: They allow individuals to capitalize on healthcare savings generated through increased exercise, healthier diets, etc. The SIKI would be similar to an Individual Retirement Account, providing a means for tax-free investment and becoming part of an individual’s estate. Once a certain level of healthcare security is reached, the excess could be spent for any purpose. Shifting control of healthcare spending to the consumer in this way would create millions of cost control centers – individuals in charge of themselves and their healthcare accounts. At the same time it would increase productivity by freeing companies to focus on their own lighthouse missions: producing goods and providing services.

With a SIKI system in place, voluntary healthcare cooperatives could be formed to negotiate pricing, monitor outcomes and educate members about health issues. These cooperatives could be organized within companies, through fraternal organizations, or in several other ways. Catastrophic policies with high deductibles could be purchased with a portion of the SIKI accounts, with balances to be used for direct payment to providers or for purchasing a prepaid healthcare plan. Uninsurable neighbors could be assigned to these cooperatives or, if necessary, placed in special pools that receive subsi-

dization from local or state governments, ensuring that none go without care.

Another major problem with healthcare today is that doctors practice “defensive medicine” to avoid the overbearing consequences of malpractice suits. Along the same lines, more than 20 obstetricians in the Las Vegas area have announced that they may have to close or move their practices to another state to avoid excessive lawsuits and increasingly unaffordable insurance premiums. A recent survey taken by the Nevada State Medical Association revealed that 28 percent of physicians have closed their Nevada practices due to high liability costs.

This is a nationwide problem and extends into many other areas besides healthcare. What is needed to solve it is tort reform that revives the idea of real responsibility and ensures reasonable awards when fault is found. This requires legislation. But in keeping with our principle of lighthouse missions, one would hope that state governments – which are perfectly capable – would address this problem before the national government

finds it necessary to intervene. As Dwight Eisenhower once said, “Our best protection against bigger government in Washington is better government in the states.” And few things could do more for economic productivity than swift state action in this area.

Education Common Sense

Friends of mine who home-school their five kids, ages 7 to 15 years, told me the following story: At one point Dad suggested issuing report cards like other schools. Mom replied, “Fine, but they’d all get As.” Classic maternal favoritism, the father thought at first – then was astounded when Mom added, “Because we don’t move them on until they get it.” Consider this mother’s radical common sense: If our entire education system were converted to learning levels based on real progress rather than grade levels determined by age – and if the pernicious concept of social promotion were eliminated – the door would be open to significant achievement in our education system.

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Under this “radical” policy, a student would go over the multiplication tables or the important dates in U.S. history until he knows them. Age would be irrelevant. A ten-year-old could be at level three in math, level six in history and level eight in science. No child would be left behind because no child would advance before he is ready. But in order for this policy to get off the ground, we must break the current and disastrous public school monopoly.

Charter schools and vouchers are mechanisms that are gaining ground as a way of giving the children of poor and middle class parents the same education opportunities as the wealthy. But why is it like pulling teeth to extend such opportunities? Why do so many parts of the government oppose it with such a vengeance? Would we tolerate being told where to buy our groceries, our gas or our clothing? Yet, by and large, we tolerate this command-and-control system for the education of our children.

And then returning to the individual level, one of the greatest educational advances we can make in the next two decades will come through one-on-one volunteer mentoring efforts. These efforts are expanding all across

America, and everyone who is able should consider taking part.

Independence and Responsibility

In conclusion, we Americans today cede too much power to our elected representatives, and we need to take that power back. Let me give you an example. Our legislators find increasingly creative ways to misappropriate the hard-earned money of American workers: Consider \$50,000 procured by Congresswoman Lois Capps to cover costs of tattoo removal for her constituents in and around Santa Barbara, California. This immoral misuse of the American worker's earnings must be stopped. American taxpayers should determine tax rates, e.g., by demanding of their elected officials that those rates be capped at no more than 25 percent. At that point we can hold our legislators responsible, not for being less wasteful than their colleagues, but for setting the right priorities with limited resources.

But to regain this authority over our own lives in such a way as to be able to keep it – in other words, to remain free – we will need to

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become responsible in the way I discussed at the beginning: helping our neighbors and not demanding special treatment for ourselves.

On the first point, I like to contrast churches that define their success by the beauty of their physical facilities and the size of their congregations and financial budgets with those that define it by the percentage of their members who have lighthouse ministries of their own outside the church. A church with 100 members, of whom 90 perform some kind of service in their community, is more successful than 8,000-member churches with what Mike Regele has called “ingrown congregations which exist to minister to their own needs.”

On the second point I like to quote Winston Churchill: “The inherent vice of capitalism is the

unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of misery.” A free society mandates that constituents know how to live free and not as slaves to their passions.

Contrasted to Adam Smith’s insight that free people in pursuit of their own self-interest will, in the process, fulfill the needs of others, there was a humble carpenter 2000 years ago encouraging us to give selflessly of ourselves to others, assuring us that our own needs would thereby be fulfilled. The economic success of our country depends, in a sense, on our ability to attend simultaneously to both of these ideas.



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