Opinion: Revive Buffett's 3-decade-old plan

By Daniel J.B. Mitchell

President-elect Donald Trump's criticism of our trading relationship with China and our trade deficit with that nation has produced predictable reactions. Economists warn against "protectionism" and the dangers of trade wars. Alarmed diplomats remind us of the American interest in maintaining good relations with China to deal with such matters as North Korea's threatening behavior.

These reactions are predictable because we have heard them all before. Back in the 1980s, the trade villain de jour was Japan. (China was just emerging into world markets.) Proposals to address trade deficits with Japan provoked the same reactions from professional economists and foreign policy experts that we hear today.

But there was one exception in the 1980s. On May 3, 1987, famed financier Warren Buffett published an essay in the Washington Post entitled "How to Solve Our Trade Mess Without Ruining Our Economy." His solution was thoughtful and new.

He proposed a market-based system similar to the "cap-and-trade" arrangements currently in use to limit greenhouse gas and other pollutants. Very simply, Buffett suggested that for each dollar of exports from the U.S., the exporter would receive a government voucher entitling the bearer to import a dollar's worth of goods or services.

The vouchers could be used directly by the exporter or sold to some third party (an importer). That is, there would be an open market for vouchers. But, since no one could import without the requisite vouchers, the value of imports would be limited to the value of exports. U.S. trade with the entire world would be balanced.

The idea seemed to find a middle ground in the arguments over trade deficits. It was neither protectionist (it included no tariffs or quotas) nor did it involve Japan-bashing (the analog of today's China-bashing). But Buffett's piece, after causing a brief flurry of interest among the D.C. chattering class, was quickly forgotten.

Why? Perhaps it was because Buffett was not an academic economist, so his view could be dismissed as an amateur's musings. Perhaps it was because there wasn't enough of a consensus that a trade deficit is a problem. Perhaps it was because even among those inclined to be more worried about deficits, Buffett's proposal was seen as a solution to a problem that would soon go away without further action. At the time, the dollar's value in international currency markets happened to be falling. It was easy to argue that a declining dollar would correct the trade imbalance by making American goods more affordable in world markets.

But the problem didn't go away. Moreover, within a few years, China joined Japan in running large trade surpluses with the U.S. Now, when Trump's complaints are discussed, we again hear that the problem with China is yesterday's issue, and that the problem will soon disappear, as wages in China go up, along with the value of its currency. But it didn't in the 1980s and it won't now. Which is why we should revive Buffett's idea.

The problem of America's trade imbalance isn't specific to one or two countries—our nation runs a massive "$500 billion net export deficit" with the rest of the world.

There are two ways such a significant trade imbalance hurts us. The first—but lesser—element is the displacement of American manufacturing jobs. That issue is clearly the one with the most political salience. Manufacturing would definitely benefit from a correction of the U.S. trade imbalance, but trade isn’t entirely to blame for the fact that only about one in 10 U.S. jobs are in that sector nowadays (down from three out of ten after World War II); technology has played a major role in that downsizing as well.

The second, more significant if less politically salient problem with all those deficits is that it forces the country to sell off its assets and/or run up its debt—which is just what the U.S. has been doing for decades. In one way or another, this generation’s imbalanced consumption will be paid for by future generations. There is a fundamental unfairness in that intergenerational transfer which correcting the trade balance would alleviate.

The Buffett proposal addresses both these economic ailments. The Buffett system also doesn’t require negotiating “great” trade deals. And there is no need to bash any country in pursuit of such deals; the impersonal voucher market brings about the zero-trade balance, not some hardline negotiation. And if any one country tries to grab a bigger share of the U.S. market for imports through tactics such as currency manipulation, it can only do so by reducing the market shares of other countries. So the pressure is on those other countries, not the U.S., to enforce rules of fair trading. If you’re an American diplomat worried about the international political effects of China-bashing, the Buffett plan is ideal for you.

But what if you’re a professional economist worried about “protectionism”? Your first reaction to the Buffett plan is likely to be that, given the current trade imbalance, the vouchers amount to a subsidy to exports and a tax on imports. You want to holler protectionism! But instead take a deep breath and think it through.

The Buffett voucher plan is equivalent to resetting the dollar exchange rate to a level that would bring about balanced trade. It is equivalent to a sufficient devaluation of the dollar to accomplish that end. Note that under current arrangements, the dollar regularly goes up and down in currency markets although it has never been low enough to create a zero trade balance (exports = imports). Is every drop in the dollar’s value a move into protection? Is every dollar appreciation a move toward free trade? Such up-and-down labeling makes no sense. Indeed, one nice feature of the Buffett plan is that you could in principle lower or eliminate remaining U.S. tariffs and other trade barriers and still end up—due to the voucher system—with balanced trade.

In short, it’s time to dust off the Buffett plan of three decades ago before the U.S. embarks on a road to frictions with China and other trade partners. Sometimes, when it comes to people and ideas, there is wisdom in the old.

Daniel J.B. Mitchell is professor-emeritus at UCLA Anderson School of Management and at UCLA Luskin School of Public Affairs.

Opinion: Why America should be bullish about Wall Street

By Andrés Martinez

You should be celebrating the fact that the stock market is soaring.

Yes, I’m talking to you, even if you are not a trust fund baby—make that especially if you are not a trust fund baby.

I fear that with all the politicized talk of Wall Street and the images that shorthand conjures up in our minds of rapacious bankers and hedge fund managers, we've lost track of what the stock market is really all about. A bright young colleague of mine recently said she'd put a little money in the market, had seen it appreciate, but was now feeling a bit guilty about her "blood money" and wants to cash out.

I fear her disdain is common among millennial progressives, who aren't likely to break out in celebration if and when the Dow Jones Industrial Average breaks through the 20,000-point milestone it has approached in recent weeks. A Gallup survey last spring reported that only 52 percent of respondents had any money (or a spouse's money) invested in the stock market, the lowest percentage in several decades.

That's a shame. The stock market is not only a barometer of our nation's business ingenuity, it's also a testament to our shared commitment to a meritocratic form of participatory democracy.

I was reminded of this reading "Shoe Dog," Phil Knight's engaging and refreshingly candid memoir. The Nike founder recounts how financially stressful the company's early days were, not only at the very beginning, but well after it had become apparent that consumers craved Nike's revolutionary running shoes, and the company was doubling its sales every year. The trouble was, the faster the scrappy Oregon-based competitor to the Adidas behemoth grew, the more nervous its bankers became, having to finance Knight's vision "on the float," paying the costs for each new product cycle, before their revenue came in to cover the bills. The only answer, which Knight resisted until 1980, was to raise capital by going public; only then was Nike's long-term success assured.

The stock market enabled the swoosh to eclipse Adidas as an iconic global brand, giving consumers more choice and, yes, making Knight and those who chose to back him billions of dollars in the ensuing decades. And now the stock market is the only reason scrappy Under Armour has itself been able to scale up to take on what it considers—as Knight once considered Adidas—the dominant but unimaginative incumbent in the industry based in Oregon. The market's wonderfully subversive that way.

It's become a political trope to talk about the distinction between Wall Street and Main Street, but what a stock market allows is for the most worthy ideas from Main Street to grow and succeed. Think what you will of the bankers on Wall Street, but the market is really about whether we will all be able to benefit from the inspiration of a Phil Knight or a Steve Jobs, and those who will improve upon what they have done.

Knight's initial hesitation to going public—the significance of the phrase itself is worth appreciating—arose from the same reason the rest of us should appreciate the stock market and seek to preserve its central role in our economy. He understood that once a company trades its shares on the market, it is accountable to the public. In exchange for being able to raise money from perfect strangers like you via your pension fund or 401(k), companies listed on the stock market are forced by landmark New Deal era legislation to embrace a radical degree of transparency, reporting quarterly results and any reverses they suffer along the way. Their managers, meanwhile, become directly subservient to outside shareholders. Knight had no choice but to embrace such transparency—his parents were not in a position to lend him millions of dollars to bankroll his company's growth.

Which brings us (sorry) to Donald Trump. Our president-elect's personal story, business practices and worldview don't reflect the ethos of the stock market. Indeed, the opaque and dynastically-run Trump Organization is the antithesis of a democratic, publicly-traded company.

It's a fun mental exercise to imagine Trump having to navigate the challenges of running a publicly-traded company all those years, if he hadn't been able to take the aristocratic route of being financed by his father[Office1] , around the same time that Knight was having to access the public market. Imagine Trump having to report each quarter to pesky journalists, analysts and institutional investors how the company was faring, and why. Imagine him having to file public disclosures about all his vindictive litigation, and having to address pointed questions about why the CEO of a modestly-sized company was flying around in a 757, and appointing relatives to run various divisions, not to mention tarnishing the company's brand by disparaging Latinos, Muslims, women, and plenty of other Americans.

Who knows, maybe Trump's company, thus cured of its cult of personality, would have become a more formidable enterprise, one more closely resembling its creator's hyperbole. Trump himself would have been long deposed, or long-since reformed into a person better qualified to represent and work on behalf of competing stakeholders and interests in a strategic manner—better qualified, that is, to be President of the United States.

Of course the stock market is far from perfect. Capitalism entails risk, and for every windfall pension funds or individual investors reaped investing early in the likes of Microsoft and Nike, plenty of money has been lost backing bad ideas. You're smiling now if you bought into Facebook when it started trading publicly and frowning if you invested in Twitter. But who's to know where each will be in five years? And worse than the speculative uncertainty inherent in stock investing is the recurring sense, triggered by accounting and insider trading scandals, that the market may be rigged by people in the know.

Yet for all the scandals that have afflicted Wall Street, our system is far more efficient at funding worthy ideas to spark innovation and create jobs than any secretive and closed Trumpian world ever could be, where equity can only be raised from family, immediate associates or a bank loan officer. Our system, with its relentless insistence on transparency and disclosure, is also far better at minimizing fraud. The rule of law and a certain level of social cohesion are key prerequisites for a system in which people are willing to fund ventures beyond their immediate circle; it's no accident the first functional modern stock market was established in the cosmopolitan, relatively tolerant and egalitarian Dutch Republic, as opposed to a more static, dynastic society. And it should be a source of pride to Americans that our stock market remains the envy of the world. It's easy for less open societies (see China) to open their own stock markets, but these don't require the same level of transparency of listing companies, or protect the rights of minority shareholders to the degree ours does, which is why the best companies from those countries still yearn to be listed in our stock market.

The stock market shouldn't be a partisan issue. It's a shame that progressives don't balance their justified outrage at some of Wall Street bankers' excesses with an acknowledgment of the democratic essence of an accessible stock market that allows entrepreneurs and innovators to fund their companies and take on complacent incumbents. Without dynamic equity markets, our economy would be dominated entirely by private companies like the Trump Organization and business tycoons who inherited their dominant position[Office2] . It's a shame that President Obama hasn't felt more comfortable explaining the market's meritocratic ethos and applauding his own results in tripling the stock market's value since its recession lows in the early days of his administration. It's a shame that politicians from both parties spent this entire populist-tinged election cycle bad-mouthing the market, making millions of younger Americans like my colleague feel like they should stay away, or feel guilty if they don't.

Andrés Martinez is the executive editor of Zócalo Public Square and a professor of journalism at the Cronkite School at

Arizona State University.

Letter: Irritated with VHRs in South Tahoe

To the community,

I’ve received the city’s notice of a Vacation Home Rental Application for 3861 Saddle Road, Unit 12. I oppose this.

Vacation rentals are like the city’s SnowGlobe festival: both are fine ideas under the right circumstances, but terrible ideas when placed in residential neighborhoods. This puts conflicting interests in proximity, a group with short-term interests in having a good time without concern for noise, the environment, or neighbors against the goals of residents, with long-term hopes for a livable neighborhood and maybe just a night’s sleep.

Permitting these activities shows an appalling willingness to put the financial interests of non-residents and businesses ahead of the well-being of those who live in South Lake Tahoe. This is justified as promotion of “economic development”, favored buzzwords of City Council and the city manager. This is either a misunderstanding of the United States Constitution, or a perversion of it. The Constitution describes the purpose of government simply, right in the preamble. It’s union, justice, domestic tranquility, defense, promotion of general welfare and liberty. There is nothing there about allowing rentals to trash neighborhoods, or enough noise to break windows. It’s about people. There is no mention of money.

Recently City Council has started surveys and discussed possible restrictions on vacation rentals. I'd like to describe a few of my own experiences with city code enforcement in the 14 years I've lived in an area of South Lake Tahoe with VHR properties:

I've probably complained five or six times about noise. The city response has been zero.

I complained once about 25 people crammed into one house. The city response came five days later. There was no problem, the house was empty.

On two occasions I've asked city police driving by to please ticket cars parked on the streets forcing snowplows to go around them, meaning the street was never cleared. Both times the reply was no, that the city didn't want to ticket tourists and possible degrade their local vacation experience.

Worst of all, on one occasion a local VHR had a plumbing malfunction resulting in days of raw sewage flushed directly on to the ground. The city responded to a complaint by calling the VHR owner, who blamed a contractor. This was relayed to me as resolution. Apparently it's OK as long as there is somebody to blame. A little sewage on the ground or maybe in the lake – so what. I got to clean it up. Multiple violations at this same rental have been ignored.

The sole city agency with any interest in quality of life issues seems to be Clean Tahoe, doing a fine job.

In summary, vacation rentals in residential neighborhoods are a bad idea. The city has demonstrated inability at regulation. The letterhead on the stationery I received containing the Notice Rental Application has the motto "making a positive difference now", so here is an opportunity. If the city cannot reverse a deteriorating quality of life for residents, I urge an end to vacation rentals in residential neighborhoods.

Joshua Benin, South Lake Tahoe

Opinion: Quantifying the American dream

By David Leonhardt, New York Times

The phrase “American dream” was invented during the Great Depression. It comes from a popular 1931 book by the historian James Truslow Adams, who defined it as “that dream of a land in which life should be better and richer and fuller for everyone.”

In the decades that followed, the dream became a reality. Thanks to rapid, widely shared economic growth, nearly all children grew up to achieve the most basic definition of a better life — earning more money and enjoying higher living standards than their parents had.

These days, people are arguably more worried about the American dream than at any point since the Depression. But there has been no real measure of it, despite all of the data available. No one has known how many Americans are more affluent than their parents were — and how the number has changed.

Read the whole story

Opinion: Backroom CalPERS deals

By Daniel Borenstein, Bay Area Media Group

Politics trumped prudent fiscal management when CalPERS, labor and Brown administration officials held a closed-door confab last month to set the pension system's key investment return rate.

The rate, which should be based on professional market forecasts, is the most critical determinant of how much state and local governments must contribute each year.

Gov. Jerry Brown
A lower rate means the pension system anticipates earning less on investments and consequently will need more from employer contributions. That, in turn, leaves less money for workers' salaries and benefits, which is why labor leaders push to keep the investment rate as high as possible.

Read the whole story

Opinion: Calif. wages not the problem; cost of housing is

By Kerry Cavanaugh, Los Angeles Times

California's new minimum wage increase is pushing some businesses out of the state, at least according to one clothing manufacturer, who plans to move his operation to Las Vegas. The state's base pay increased to $10.50 on Jan. 1.

It’s the first in a series of hikes that will eventually set the minimum wage at $15 an hour in 2022.

That is simply too much for some employers, particularly those who compete in a global marketplace, argued Houman Salem, chief executive of ARGYLE Haus of Apparel, which is based in San Fernando. In a recent op-ed, Salem laid out the math: He currently pays his workers $10.50 an hour, plus productivity bonuses. The planned wage increase to $15 an hour in 2022, plus additional worker compensation and payroll taxes, will cost him just under $40,000 a year per full-time employee.

His math makes a compelling case, but there’s an equaling compelling reason why California had to raise the minimum wage: It’s nearly impossible to live on so little income given the incredibly high cost of housing. A new report from the state’s Housing and Community Development Department says that 1 in 3 Californians pays more than half his income for housing, with less to spend on transportation, education, healthcare or to put into savings. The burden of high housing costs falls especially hard on the lowest-paid workers.

Read the whole story

Opinion: The coming public pension apocalypse

By Ed Ring, California Policy Center

When the next market downturn hits, every public employee pension fund in the United States will face severe challenges. Because public employee pension funds are not subject to the same rules that private pension funds have to adhere to – namely, the restrictions on risky investments as specified in the federal Employee Retirement Income Security Act of 1974 – they will be hit much harder in a downturn than private pension funds. Some states will face more significant challenges than others. California is destined to be one of the hardest hit.

This discussion of California's coming public pension apocalypse has three sections. Part one will make the case, yet again, that public employee pension funds cannot possibly hope to earn the rates of return over the next 20 years that they earned over the past 20 years. Part two will show the precise impact that lower rates of return will have on the unfunded liability, the normal contribution, and the unfunded contribution – using projections that show all of California's state and local public employee pension funds in a consolidated report. Those who are already convinced that pension funds are headed for trouble are encouraged to skip immediately to part two, to see exactly how many hundreds of billions we're talking about.

Read the whole story

Letter: Restaurant gang helps at Bread & Broth

To the community,

Base Camp Pizza, just one of many Tahoe Restaurant Group's establishments, was the host for Bread & Broth's Monday meal on Jan. 2 at St. Theresa Church Grace Hall. Their Adopt A Day of Nourishment sponsorship is just one of the many ways that

Ted Kennedy and members of his restaurant crews have been partnering with B&B.

In addition to sponsoring AADs, Tahoe Restaurant Group has been sending helpers to assist B&B volunteers with the Monday meal cleanup, purchasing dinner utensils and sponsoring and providing financial assistance and help whenever needed.

At Base Camp Pizza's sponsorship meal, Ted Kennedy, Kelsey Zieba and Elli Gage came prepared to make sure that every dinner guest who came to their dinner was treated with warmth and a kind word. Their spirit of service was greatly appreciated by the B&B volunteers and always makes the evening a fun event.

Kennedy commented, "The salad was great!" But so was the lemon chicken, mashed potatoes and green beans with bacon all prepared by the talented B&B cooks. "Seriously what makes this meal so great is all of you wonderful people giving back. We're so honored to be a part of it."

The B&B program is so glad and thankful to have Tahoe Restaurant Group as our partner and generous sponsor.

Carol Gerard, Bread & Broth

Editorial: Nevada has a chance to set an example

Publisher's note: T*his editorial is from the Jan. 2, 2017, Las Vegas Sun.*

The 2016 election created anxiety among many Americans, but Nevadans have reason to be hopeful about state politics as 2017 gets under way.

With a moderate Republican governor and Democratic majorities in both chambers of the Legislature, Nevada is poised to stand its ground against a wave of anti-immigrant and anti-refugee sentiment that arose during the presidential campaign and is now rolling across several states.

Already, it's clear that the divisive extremism of the nation's president-elect and his cronies is rooting itself in some state capitals. In Montana, lawmakers have filed about a dozen bill requests related to refugees, immigration and terrorism, the *Associated Press* reported, even though the state had taken in only nine refugee families from January through early December 2016. And more such legislation is expected in other states.

Read the whole story

Opinion: My Pasadena homie, Obama

By Joe Mathews

I recently learned that, in the second grade, I was part of presidential history.

Every morning during the 1980-81 school year, I walked the five blocks between my family's home in Pasadena and Allendale Elementary School. In the evening, I went back to play Little League at Allendale Park, adjacent to school.

Joe Mathews

The round trip seemed unremarkable then. But last month, the city installed a plaque on the sidewalk outside one of the apartment buildings I used to pass on my way to school. The plaque at 253 Glenarm St. explains that an Occidental College sophomore lived there in 1980 and 1981.

The occupant’s name was Barack Obama.

This revelation—that the president of the United States was once my neighbor—might seem trivial. But it has made the California news and inspired my own state senator, Anthony Portantino, to propose renaming a portion of the 134 Freeway, connecting Pasadena with Glendale, the “President Barack H. Obama Freeway.”

I still live less than two miles from the sidewalk plaque, and coach my kids in the same nearby Little League. So, while I’m not a big fan of the president, over the holidays I stopped a half dozen times to see the plaque. The draw is some combination of childhood nostalgia and the deliciously incongruous updating of the president-from-a-log-cabin story. Plus, I’m never alone—there always seem to be other curious locals in front of the otherwise forgettable apartment building.

But I must confess I also find the plaque—and my own interest in it— embarrassing, in an “Aren’t we behaving like small-town hicks?” sort of way. And I felt that embarrassment even before my in-laws, visiting from Chicago, made fun of the plaque when I took them to see it.

Obama, after all, left us as fast as he could, transferring from Occidental to Columbia University in New York City after that sophomore year. And the plaque is the product of a conversation between Obama and a city councilman in which the president said he'd loved Pasadena—but could only remember that the street he'd lived on started with a G. (A search of phone directories and utility records identified the address, according to the Pasadena Star-News).

So why is my hometown holding so tightly to such a thin connection to a president? There's our strong commitment to celebrating African-American history in a city with one of California's oldest African-American communities. More broadly, it's understandable that Californians are clinging to a president for whom we voted twice, particularly at a time when we're confronting a president-elect that most of us see as a threat to the republic.

But that doesn't justify our state's lack of caution in celebrating Obama so robustly, even before he leaves office. There are already two schools named for Obama in Los Angeles, and another in Oakland; more are likely on the way. The town of Seaside, near Monterey, gave its Broadway Avenue a second name—Obama Way—six years ago. And scientific researchers even named a lichen they discovered in the Channel Islands after the president. (It's called Caloplaca obamae).

Such celebrations seem excessive because the president hasn't exactly reciprocated our affection. During his presidency, Obama came to our state mostly to raise money and play golf. He attacked Silicon Valley for not collaborating with his administration on mass surveillance of questionable legality. He turned down our recession-era requests for financial assistance that would have prevented the worst of the state budget cuts. And he deported an awful lot of our undocumented neighbors.

At the very least, high honors for this president are premature. It’s always dangerous to name things after living people, and he is just 55 years old, with—potentially—decades to screw up his reputation here. Depending on what his successor does, Obama’s legacy may soon seem rather ephemeral.

So why not hold off on renaming more schools or roads for him?

Yes, the stretch of the 134 Freeway in question is near Obama’s alma mater. But that’s too big an honor for a guy who spent such little time here in his youth. It’d be more appropriate to name that bit of freeway for Mildred Pierce, the title character of the novel and 1945 film noir, whose daughter, a bratty social climber, dreams of leaving drab Glendale for higher social status in Pasadena.

But I feel differently about the sidewalk plaque in my old neighborhood. Yes, the plaque—or, as some of us now call it, the Obama Monument—is hokey. And yes, if you have friends from Pasadena, you may hear us bragging that Obama was once our homie.

But I say we swallow our pride and keep the plaque (and maybe have T-shirts made). It’s a sweet little reminder that sometimes history is hiding just around the corner, and living in a really shabby apartment.

Joe Mathews writes the Connecting California column for Zócalo Public Square.