

In conversation with a rabbi

By Natalia Davis and Russell Redenbaugh

Recently, we were in Philadelphia sitting with a Kabalistic rabbi from Israel who turned to us and asked “What is it that the two of you do for work?” We answered with our standard “We are investors. We manage people’s money.” He replied “I don’t understand business. Tell me what you do.” We paused, turned to each other, and answered him in the following way.

We manage people’s wealth so that they will have money to take care of their families and communities. We do this by investing their money in the stock market. We have a particular way of looking at the market consistent with your teachings. Let us further explain.

You teach that sharing, or giving brings fulfillment and joy. Sharing also produces wealth. You teach that taking from others results in suffering and pain. Taking also produces scarcity and poverty. Using this framework of giving and taking, we study government policy and business. This helps us to decide where to invest. Let us further explain.

We’ll begin with the recall of Governor Davis in California, a state in which we have a personal stake. Governor Davis was taking too much from California residents and businesses. California under Davis had some of the highest income and corporate tax rates in the country. Taxing is a form of taking. In his last months of office, Davis more than doubled the tax on automobile registrations. Now this may have been acceptable if he were giving something back to the taxpayers. New roads and better schools would have been appreciated. Instead he increased the salaries of the state’s legislators and gave them full pension plans vested with only 5 years of service.

Now to understand why Californians recalled him, you must understand the scarcity that his taking was producing. Companies were leaving the state, taking their jobs with them. People moved away. Everyone, including those unemployed, was paying more and more to live in California. This once booming State faced a possible bankruptcy. Finally one resident stood up and said “Enough! Enough taking, we need to make a change.” That resident was Arnold Schwarzenegger. The petitions began, an election followed and he became the new Governor of California.

California is a local example but we can see the results of taking all around the world. We wrote an article on Japan a few years ago. Japan is a country where the older generation is taking too much from the younger generation. The older people’s pension funds are taking too much from the younger people’s earnings. This taking is producing a nation of scarcity. Young people are living at home, unable to afford property. They are not investing, they are not starting businesses, and most tragically they are not having children. Japan’s fertility rate is half of what is necessary to maintain its population. Without a future generation, Japan will die away.

In contrast, Ireland is thriving. Ireland was a nation whose economy was trailing Europe. They had a long history of high emigration rates as many Irishmen left to build their futures elsewhere. When Ireland drastically cut its corporate tax rates, the tide changed. With the government taking less, people began investing their ideas, labor and money in Ireland. Soon Irishmen began moving back, building their futures at home instead of abroad. In some years more than 1 million moved to the Emerald Isle. Now with the future so bright, Ireland's birthrate is the highest in Europe. The Irish are building businesses but more importantly they are building the next generation.

The rewards of sharing can also be seen in the Eastern Block nations. Under the Soviet Empire, these people lived in such scarcity and despair that many risked their lives on the treacherous journey to the West. Now many of these escapees are returning to their homelands. With these governments taking less than 20 percent, people are building businesses, factories and families.

So when we look at policies, we look for sharing. We know that taking, such as high taxes, inflation or regulation, will produce scarcity and poverty. We know that giving will produce abundance and wealth. When a government makes it easier for its citizens to give their labor, money and next generation, its citizens will build a successful nation and economy. We simply invest when giving not taking is happening.

The same principles apply to business. What is an entrepreneur? Well an entrepreneur is a remarkable person who sees a possibility then gives a new service or product that will better people's lives. He gives to the world, unclear of what reward, if any, he will receive. A successful entrepreneur builds a business and gives his gifts to customers who happily pay for this new opportunity. As the business grows, this same entrepreneur may take his company public, offering shares to investors. Now he needs to grow his company giving his shareholders a higher stock price while continuing to give his customers satisfying services or products. In the spirit of giving, the company may invent better and better products or services, which the customers value and pay more for, resulting in higher earnings giving the shareholders a higher stock price.

However, when a company takes more than it gives, it puts its financial future in jeopardy. The company may not even realize that it is taking too much. Perhaps the new products and services are more than the customers can use and therefore a price increase is unacceptable. If there are competitors, the customers can take their business elsewhere. The company's earnings soon decline and shareholders soon sell their stocks. Customers without options may find themselves in resentful bondage. Stuck paying more and more, they get angrier and angrier. Desiring freedom or choice, revolt happens. Someone starts a company that offers this angry mob a choice. This is what happened with the record industry.

Long ago an entrepreneur invented a way for people to buy not just listen to music. This was a great gift! Now we could have music in our homes. We could select from a variety of music as more and more choices were made available. For decades the record companies gave more than they took, offering us 33s, then 45s, cassette tapes and finally

CDs. At some moment the companies, perhaps desperate to satisfy their shareholders, began taking too much. We realized that we were paying more and more for albums, sets of 10-14 songs, but only enjoying 3 or 4. The artists, those entrepreneurs making music, also realized that the record companies were giving them less and less for their gift of song. In taking too much from their customers, the record companies had us in resentful bondage. There was nowhere else to buy our music? We became more and angrier until someone, in this case Shawn Fanning, revolted and started Napster. Napster offering us a choice and freedom from bondage, gained 40 million users in its first 18 months. The move to Napster was like an avalanche. The build up of resentment sent 70 million users to Napster before the record industry shut them down. The record industry could have offered a new service but instead sued Napster, put them out of business, and took this opportunity away. The industry now had us back in resentful bondage, and angrier than ever. Then two Dutchman said “Aha, we see the path to freedom. We’ll build a new Napster that they can’t shut down!” So Janis Friss and Niklas Zennstrom from the Netherlands built Kazaa, a Napster-like service. They designed it in such a way that the record companies couldn’t shut it down in any court. In less than a year, Kazaa had millions of users. The record companies, still taking, now resorted to suing 14-year-old customers. Steve Jobs, an entrepreneur understanding the power of giving, saw the stupidity of taking teenagers to court. With the introduction of iTunes, he gave us a choice. Jobs even offered us the cool, little iPod for playing our music. Giving produced wealth for Steve Jobs and an abundance of happy iTunes and iPod customers. In contrast, taking has impoverished the record industry.

As we’ve hopefully shown, giving produces wealth. Knowing this, we invest in companies that continue to give their customers better services and products. We don’t invest in companies that take. When we see resentful customers, we search for the next new choice and move to invest quickly.

The rabbi relaxed into his chair and with a quizzical grin remarked, “ Now I understand. We both foster giving. I teach that giving produces satisfaction and fulfillment. You’ve demonstrated giving produces wealth.” After a long, silent pause he commented, “This is an unusual way to look at politics and business. I’ve never known anyone who looks at the world quite this way.” While gazing at the view of Philadelphia, high above Independence Hall, we were inspired. We continued, “This is not a new view of governments and business. Our country was founded on sharing.” Let us explain.

In 1776, our Founding Fathers signed the Declaration of Independence because the English government was taking too much. The opening lines of the Declaration of Independence read, “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.”-- By this they meant all men are entitled to freedom to build a happy life unhindered by a government that takes too much. The Declaration of Independence continues with a list of all the ways that the English government was taking. It ends with our Founding Fathers pledging to each other their Lives, their Fortunes and their sacred Honor.” They stood up and said “Enough!”

Later when these Founding Fathers designed our nation, they ensured that our government could not take too much. These revolutionists designed a government unlike any other! Until our Constitution, people only had those few rights granted by their sovereigns. By sovereigns we mean kings, queens, emperors and sultans. These sovereigns could not be removed except through revolt or ascension. Our Founding Fathers, when drafting the Constitution designed a nation in which the **people not the government** held the power. The people not the sovereign granted rights. They flipped the balance of power! By giving the power to the people, they limited what the government could take! They also ensured that we could remove our leaders from office if they were taking too much!

The Constitution begins with “**We the People** of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.” The Constitution states that the powers of the government are delegated by the people, that these powers are specific, limited and enumerated. With the Constitutions, our Founding Fathers, ensured sharing and prosperity would prevail! Later in the Gettysburg Address, Lincoln would remind us of their amazing gift when he said “Our forefathers brought forth a new nation, a nation conceived in liberty and justice for all.”

Our Founding Fathers not only gave in their public lives, but in their private lives as well. Walking around Philadelphia we see their gifts. These entrepreneurs gave us our first hospital, first library, first bank, first post office, first fire company and first insurance company. This new nation cultivated ingenuity, entrepreneurship and sharing. This has allowed America to prosper. Many have followed our example and have prospered.

Upon finishing this story, the rabbi smiled and said “ Now I understand what makes this nation great. It is a nation founded on sharing. What an amazing gift these men gave to the world!” We replied with sadness “It’s a shame that Americans have lost touch with this rich history. Many Americans abuse their freedom; living in greed and entitlement, they take all that they can from others. They forget that sharing, not taking, produces wealth and satisfaction. Americans need to get back to sharing. We owe it to those who risked their fortunes and lives so that we could prosper.” The rabbi then replied “So how are you going to help?”

Reflecting on Kennedy’s wise words “Ask not what your country can do for you, but what you can do for your country” we began writing.