What I Would Tell Our Next President

By Mike Vlasic

Next year, we will elect a new president of the United States of America. It is hard to imagine a greater challenge, especially under the current conditions. The next president is likely to inherit an economy that is progressing at a lackluster pace with conflicting indicators of how we are really doing. While the stock market is up, it gives a false positive on the health of the economy. Interest rates remain artificially and irrationally low. A profound lack of good investment opportunities is causing businesses and investors to stockpile cash or speculate on dubious ventures that have no place in their asset allocations. There is much to address. Here is what I would (respectfully) tell our next president.

#1 Remove the uncertainty in regulation of financial institutions and businesses that is paralyzing our economy.

There are constant calls for less regulation from one camp and more from another, but the amount of regulation is not the primary issue. It is the uncertainly in regulation that is driving businesses and individuals into inaction. Most enterprises would prefer to deal with a more rigorous, clear, consistent set of rules that everyone understands than a virtual crapshoot of weakly defined regulations, where no one can predict how the regulatory bodies will act and react. If we know what the rules are, we can implement strategies for playing within them to achieve our objectives or opt out of the game.

Mr./Ms. President, we must stop the economic paralysis of regulatory uncertainty.

#2 Rebuild Trust in the Markets.

A long and excruciating series of violations by major players has generated a growing distrust for the financial markets among investors, businesses, the media and the public. The strategies of some institutions and companies seem to include blatant rules violations followed by payment of fines that have made punishment nothing more than a cost of doing business. For those with questionable ethics, the principles behind the rules matter far less than the calculated expense of violating them, even with very public admonishment. This has created predictable erosion of trust in the financial markets and weakness in the system.

Mr./Ms. President, we must revamp our rules and implement meaningful penalties.

#3 We must stop suppressing interest rates to artificially bolster the economy.

On the surface, low interest rates, like low oil prices, seem highly desirable. But this impression is based on a superficial analysis. It is true that low interest rates stimulate economic activity, but at what cost? Consider the person who owns a car that has several years of useful life remaining. Under conditions where interest rates are naturally set, they probably would not purchase a new vehicle. However, when zero interest rates are offered, the individual is persuaded to purchase that new car two to three years prematurely. The result is that future economic activity is brought into the present. Why is this bad? Because it is like mortgaging the future. At some point in time, we will not be able to continue reaching farther and farther into the future to create demand, and a major economic bubble will pop. Lack of economic activity will have to catch up with real demand. Far more complex versions of this simple example can be seen at all levels of our economy.

Mr./Ms. President, we must stop artificially boosting our economy through suppressed interest rates.

While I am not sitting by my phone waiting for the next president to summons me to the Oval Office, I believe he/she would be well advised to elicit input, advice and perspectives from sources outside the typical political and partisan circles. This is most assuredly not a political issue. We must shift away from an artificially induced speculative economy, fraught with uncertainty and distrust, and return to a reliable, sustainable and truly productive equilibrium.