

Houston Objectivism Society Newsletter

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The Houston Objectivism Society supports Objectivism and the Ayn Rand Institute; however, we do not purport to represent or speak for the same. HOS membership dues are \$15 per year (single); \$25 (couple). \$5 (student). The Newsletter address is: P.O. Box 112, Bellaire TX 77402.

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A Brief History of HOS

by J. Brian Phillips

The Houston Objectivism Society (HOS) was formed in October 1987 to spread Objectivism in the Houston area, as well as form the catalyst for social and self-education opportunities. The first HOS meeting was held on November 20, 1987, at which time it was agreed that an award would be offered for the best local entry in *The Fountainhead* essay contest sponsored by the Ayn Rand Institute.

The founders of HOS-- Joe Blackburn, Warren Ross, Anna Franco, and Brian Phillips-- formed an Executive Committee (EC) to make policy decisions regarding the club, as well as organize club activities. In addition, the EC serves as the judges for the local essay contests.

During the past nine years, members have benefited from the social and intellectual opportunities made possible by HOS. This article will examine some of the activities organized by HOS and its members.

At the time of HOS's formation, Joe Blackburn donated dozens of titles from the Second Renaissance and The Intellectual Activist Book Services catalogs for the formation of the HOS Library. Since then, the contents of the library have expanded through contributions from members and purchases by HOS. In addition, a garage sale held in 1993 raised sufficient funds for the club to purchase Dr. Leonard Peikoff's *The Introduction to Logic* lecture series.

The library currently contains more than 120 titles, including 4 of the lecture

series by Dr. Peikoff which were previously available only for rental, and a video tape of Miss Rand's appearances on Phil Donahue and Tom Snyder. The library also contains numerous pamphlets, some of which are available for distribution.

HOS members may use the library as part of their membership.

HOS has provided members with increased opportunities for self-education through study groups. Initially, the study groups consisted primarily of Dr. Peikoff's taped lecture series. In 1991 Anna Franco hosted a study group for *The Romantic Manifesto*. HOS members have also formed study groups to discuss the second edition of *Introduction to Objectivist Epistemology*, *The Fountainhead*, *Objectivism: The Philosophy of Ayn Rand*, *The Ominous Parallels*, and current events.

These study groups serve a dual purpose. Not only do they facilitate a better understanding of the material, but they also provide an opportunity to improve one's ability to articulate that material. To quote from an article in the September 1992 issue of this newsletter: "The format itself helps one to integrate and condense Objectivism by minimizing prepared written answers. In verbalizing one's answers, one must recall essentials and express the issue in one's own words."

Since the founding of HOS, members have engaged in a wide variety of activities to promote rational ideas. HOS meetings have been used to promote

Upcoming Meetings

The December HOS meeting will be the annual Christmas Party. A separate announcement is included in this newsletter.

The January HOS meeting will be the annual planning meeting. This is an opportunity for all HOS members to determine the agenda for the following year. Members are encouraged to participate in selecting topics for upcoming meetings.

Both meetings will be held at the Clubroom of The Meridian apartment complex, 6263 Westheimer (between Hillcroft and Fountainview), across from Payless Shoes.

NOTE: We are asking each member who attends to contribute \$2 to help pay for the expenses of renting this clubroom. We have not been recovering rental costs, and would like to encourage those who have not been contributing to do so. In addition, in an effort to reduce club expenses, those attending are asked to bring snack items.

these activities, such as workshops on writing letters to the editor and pamphleteering.

Writing has been one of the most popular forms of activism. More than a dozen HOS members have had letters to the editor printed in local papers, and three OpEd articles by Brian Phillips have been published in The Houston Chronicle.

Michael Mazzone fought mandatory pro-bono in Texas, and more recently won a ruling from the 5th District Court of Appeals in regard to Interest On Lawyers Trust Accounts (IOLTA).

In 1989 Anna Franco, Jeff Crow, Dawn Phillips, and Brian Phillips produced a documentary on the Montessori method of education which was aired on Access Houston cable channel. Warren Ross was interviewed in the documentary and Pete Jamison served as narrator.

When City Councilman Jim Greenwood proposed instituting zoning in Houston in January 1990, Brian and Warren responded by founding The Ad Hoc Committee for the Protection of Property Rights. They wrote a pamphlet titled "Zoning vs. Freedom" which was widely distributed, and in conjunction with other literature written by the two, contributed to the defeat of zoning in the 1993 referendum. During the debate over zoning and in subsequent debates over property rights issues, Brian's comments have been quoted in The Chronicle, the now defunct Post, Channel 11 Nightly News, and on KTRH radio. Janet Wich, Pete Jamison, and Dale Schwartz have also appeared before City Council to voice their support for property rights.

In 1994, during the debate of the Clinton health care proposal, an effort led by Dwyane Hicks resulted in 2,000 copies of Dr. Peikoff's pamphlet "Health Care is not a Right" being distributed to local physicians.

These efforts, and others not mentioned here, have exposed thousands of Houstonians to rational ideas. In

addition to defending one's values, such efforts may also reach minds receptive to Objectivism-- at least two current HOS members discovered the organization as a result of intellectual activism.

In conjunction with the Ayn Rand Institute, HOS offers prizes for local entrants in *The Fountainhead* and *Anthem* essay contests (the *Anthem* prize was added in 1994).

Several winners of the local contest have also won prizes at the national level, including the first *Fountainhead* winner-- Adam Wagman-- and this year's *Anthem* winner-- Sam White.

Since beginning the essay contest, HOS has given \$9,850 to 18 area high school students. In addition, hundreds of high school students have been exposed to Ayn Rand's ideas through the essay contests.

For the first several years, the bi-monthly HOS meetings consisted primarily of playing audio and video tapes. Later meetings began including original presentations by HOS members, such as papers, workshops, and lectures.

In the fall of 1994, in response to a member survey, HOS began meeting on a monthly basis. That first monthly meeting also served as the first annual planning meeting, in which members discussed and selected meeting topics for the following year.

Monthly meetings now consist almost entirely of original presentations by HOS members. An annual Christmas party is held each December, highlighted by a progressive gift exchange in which members engage in "dog-eat-dog" competition for the best gifts.

As HOS enters its tenth year, it is worth remembering the many notable achievements of the organization and its members. Not only are they worthy of celebration, but they can also serve as inspiration for future successes.

Book Review: *The Making of an American Capitalist*

by J. Brian Phillips

The *Making of an American Capitalist* is the inspiring story of America's most successful investor--Warren Buffet.

Buffet's entrepreneurial spirit was evident from the age of 5, when he purchased a six-pack of Coke for 25¢ and sold them for 5¢ each, netting himself a tidy profit of 5¢. He purchased his first share of stock at the age of 11, an age when most are boys are collecting baseball cards. When he was fourteen, he took his profits from his newspaper routes and purchased forty acres of farmland.

Buffet studied under Benjamin Graham at Columbia University, a professor who pioneered the field of security analysis. Graham argued that a stock's price is sometimes much different than the stock's value. And it was this identification of looking for value which provided Buffet with the knowledge to launch his career.

Where previous theorists argued that the stock market was nothing more than a casino, Graham noted that a share of stock grants one partial ownership of the underlying business. Because the value of the business could be determined by examining the company's financial statements, a reasonably accurate value could be attached to the stock. Investors could be reasonably sure that stocks selling for less than the per share value of the company would eventually rise.

Buffet departed from Graham in how he defined value. Where Graham looked only at the company's tangible assets, Buffet insisted that intangible assets, such as a popular brand name, a stellar reputation, or competent managers, were also valuable. For example, Buffet realized that Disney, while not generating the kinds of profits Graham looked for, possessed a library of movies, such as *Snow White* and *Bambi*, whose real value did not show up on the income statement. Yet, these properties would ultimately generate profits.

Buffet's philosophy also calls for long-term investing. He does not try to predict daily, weekly, or even yearly swings in a stock's price. Instead, he holds stocks until he is convinced that the company is no longer a sound investment, i.e., until he believes the company will not continue to be profitable.

For the investor, *The Making of an American Capitalist* provides a thought-provoking insight into this nation's most successful investor. For the student of philosophy, it provides an interesting concretization of the virtues which are necessary for success.

Specifically, two characteristics stand out most in *American Capitalist*. Buffet is an independent thinker who shuns the conventional wisdom because he does not agree with it. And he

is also an advocate of reason, though implicitly.

Buffet still lives in his hometown of Omaha, Nebraska, refuting the notion that successful investing requires one to live in New York. Further, his entire investment philosophy has been rejected by most "money-managers", i.e., professional investors who utilize computer programs to predict short-term market movements. Buffet's approach is conceptual. He must look, not only at the present and the short-term, but also project the long-term. He studies balance sheets and yearly reports, not to predict the next quarter's market movement, but in an effort to understand each business and industry in which he invests.

One interesting example is Coca-Cola. Buffet watched the stock for 25 years before investing in the world's largest soft drinker maker. While he greatly admired the company for years, he saw it as a company with a saturated market and limited profit potential. However, when the company began expanding into new markets, he began investing. Because he examined the business which underlies the stock, as well as the marketplace, he was able to identify the company's potential profitability.

The author repeatedly stresses Buffet's commitment to logic, and his disdain for emotional investing. Those who base their investment decisions on daily

market movements are resorting to group psychology, he argues. They are trying to predict what their neighbors will do, just as their neighbors are trying to guess what they will do. While such thinking may influence the short-term market, they are ultimately irrelevant in regard to a stock's true value.

Even with his impressive record, Buffet does not try to bully the executives of the companies he purchases. Instead, he seeks competent managers who are as committed and virtuous as he. And then he turns control of the business over to those people.

author's own philosophy influences the treatment of his subject at times. This is particularly apparent when the author discusses the difference between Graham and Buffett. Because the author does not understand the fundamentality of that difference, he is unable to fully understand and appreciate Buffett's genius.

Benjamin Graham rejected the prevailing theory on stock prices. But in place of scepticism, he substituted rationalism. Graham believed that a stock's value can be determined solely by examining financial statements.

Buffett has demonstrated that a stock's real value cannot be determined without reference to many other facts, such as the company's products, reputation,

or the virtues of its managers. A stock's value is not a floating abstraction divorced from the business which underlies it and the market in which it operates.

Where Graham went strictly by the numbers, Buffett realizes that assessing a stock requires one to integrate all of the information relevant to that company. Businesses operate in the real world, and many factors can influence their future profitability-- e.g., technology, political developments, and the changing values of consumers. By using an objective methodology, Warren Buffett has become America's most successful investor.

As is usually the case with biographies, the

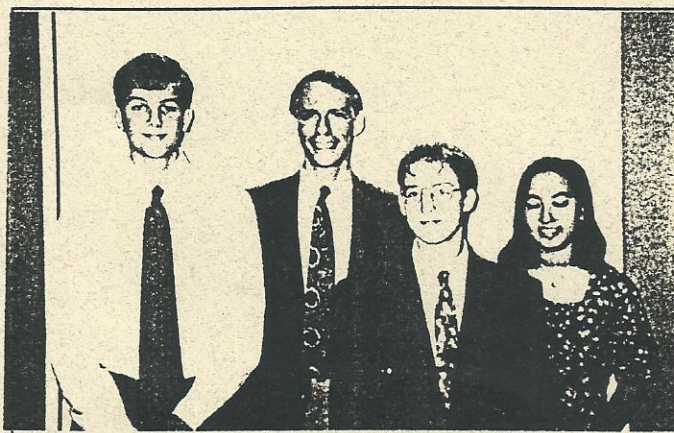
Essay Contest Awards

In August, HOS members gathered to present awards to this year's essay contest winners.

Qingli Li (Stratford High School) and Brad Burris (Katy High School) were each awarded \$250 for their *Fountainhead* essays. Sam White (Bellaire High School) was awarded \$500 for his *Anthem* essay. Sam's essay, which won second prize in the national contest, was printed in the last issue of this newsletter.

HOS would like to thank the following members for their

contributions of time and money: Joe and Mollye Blackburn, Jim and Sandi Brents, Casey Conn, Neil Erian, Hannes Hacker, Clark Hamilton, Harry King, Frank Krull, Elbert Marks, Kirk Mashue, Johnnie McCulloch, J.P. Miller, Bob Peterson, Keith Robertson, Warren Ross, Pravin Shah, and Yaromir Steiner.



Brad Burris, Warren Ross, Sam White, and Qingli Li.

The membership renewal form included in this issue has spaces for members to pledge donations for next year's contests.

HOS Meeting Summary

by Clark Hamilton

The October 19 HOS meeting was a presentation by Clark Hamilton and discussion of the 1996 Presidential Election.

The meeting began with an quiz, in which the audience was shown a quote by one of the two candidates. Members were then asked to guess which candidate the quote was attributable to. After a show of hands for either Clinton or Dole the source was revealed. Examples of these quotes are: "I'm very oriented toward the future. I think this election has to be geared toward the future", and "In America, no one will go without health care. No one will go without food." (Clinton made the first and Dole the second.) These are just two examples of the dozens of statements that could have just as easily been made by Dole as by Clinton during two parties' conventions, press conferences and the presidential debates.

These types of statements reveal how similar the two candidates really are and how they took essentially identical stances in order to appeal to the most people at any given time. The best example of this was provided repeatedly in the presidential debates. Bob Dole responded to accusations of wanting to cut medicare and spending on education by claiming that he was an even bigger supporter of such programs than Clinton. Or to put it another way, Dole typically defended himself by trying to be more altruistic than the

Democrats.

Then, a description of the Objectivist view of politics was given. As the fourth branch of philosophy (based on ethics) politics deals with the principles of a proper social system. The fundamental choice in a political race is between statism and capitalism, and any "mixed economy" or compromise between the two will only lead us toward statism. Politics has steadily been decaying in terms of philosophic principles for the last century, and no candidate has ever defended capitalism on moral grounds such as identified by Ayn Rand.

This isn't to say though that Rand advocated not voting for presidential candidates. In fact, in 1962 she wrote a column for the Los Angeles *Times* entitled "Just Suppose" in which she described what she called "Party X", an opposition party to the Democrats. She gave specific examples of policies that Party X would propose that she would support, involving mainly programs to decrease taxes and encourage individuals to pursue education.

Quoting from that article: "Knowing that a cut in taxes should be accompanied by a corresponding cut in government spending, Party X would compute the costs and choose the specific government projects it would promise to abolish. If the country heard some concrete details of what those taxes are spent on-- such as the story of a few foreign

lobbies-- anyone but a confirmed totalitarian would scream in protest. Party X would set the pattern for the gradual lifting of the tax burden-- at a time when both business and labor are beginning to realize that the best way to save a collapsing economy is to leave more of their own money to the citizens who earned it."

The profile of Party X was used as the basis for the main part of the meeting-- an analysis of the Clinton and Dole campaign platforms. A comparison table was shown to the audience, summarizing each of the candidates' positions on the following platform issues: the economy, education, crime, abortion, trade and the environment. For each issue the audience discussed whether either candidate represented Party X. That is, if implemented, would the candidate's proposals on the issue result in a more capitalist or more statist system in four years. There was a good deal of discussion on each issue, with some members detailing the candidates' proposal or clarifying confusing laws on which they were based.

At the conclusion of the program, a tool was presented for summarizing the candidates' positions. Showing a continuum between capitalism and statism, allows one to visualize where a candidate falls in comparison to Party X, and can be used as a "yard stick" for choosing how to vote. Even after extensive

Mazzone wins in IOLTA case

discussion on the candidates, Party X, and the consequences of voting for Clinton or Dole, HOS members were still divided on who was the better candidate. One audience member commented that is frustrating to be faced with such weak alternatives to statist every four years and that it seems almost futile to participate in the electoral process.

This very sentiment leads to an important conclusion drawn by Ayn Rand in another Los Angeles time column, entitled "The Season of Platitudes". Here Rand identified that a presidential election does not set the course of a country and that a presidential candidate doesn't create political trends-- he is in fact the result of cultural trends. The real race in politics between statism and capitalism doesn't take place through political elections. It happens everyday of the year in academics and business. Ideas influence individuals and then society as a whole. This is why Objectivism places the importance of activism on philosophic ideas. While each of us may participate in the political process and even vote for opposing candidates, our efforts must be focused on spreading the ideas which will ultimately steer our culture back toward capitalism.

In Washington Legal Foundation, et al. v. Texas Equal Access to Justice Foundation (TEAJF), the U.S. Court of Appeals for the Fifth Circuit held that clients have a property interest accruing on client funds held in IOLTA accounts.

IOLTA means "interest on lawyers' trust accounts." Under Article XI of the State Bar Rules, Texas lawyers are required to maintain IOLTA accounts for all client funds that are "nominal in amount or are reasonably anticipated to be held for a short period of time." The interest earned on these accounts is then paid to the TEAJF, which in turn pays money to organizations who are supposed to provide legal services to the poor in civil matters. IOLTA programs exist in almost every state.

Michael Mazzone, President of The Association for Objective Law, and one of his clients, along with the Washington Legal Foundation, sued the Texas Supreme Court and the TEAJF claiming that Texas' mandatory IOLTA program violates the First and Fifth Amendments of the U.S. Constitution.

The Fifth Circuit reversed the district court's judgment which had upheld the constitutionality of the Texas IOLTA program. The Court also remanded the case to the district court for a determination of whether the taking of clients' interest was against their will.

The Fifth Circuit rejected the

State's argument that IOLTA is "modern-day alchemy," that property can be created from nothing. The court refused to base property rights on anomalies in banking regulations and the "fickle" tax code, which the State relied upon to support their arguments. "This short-sighted view of property renders it unacceptable," the Court said.

The Fifth Circuit's decision should end mandatory IOLTA in Texas and perhaps other states in the Fifth Circuit. However, the Court's decision conflicts with decisions of the First and Eleventh Circuits, both of which hold that clients have no property interest in the interest earned on their funds held in IOLTA accounts, that IOLTA interest belongs to no one, and that, therefore, the State should take the interest.

The opinion can be found on the Internet at <http://www.law.utexas.edu/us5th/us5th.html>.

Lyceum Summary: "In Defense of Financial Markets"

by J. Brian Phillips

On November 23 Dr. Yaron Brook, under the auspices of Lyceum International, presented a course titled "In Defense of Financial Markets".

Brook began by noting that financiers have historically been victims of scorn and opposition. They have been categorized as thieves who engage in no productive activity and as paper shufflers who profit at the expense of others. This view existed in Biblical times as well as today.

However, financial markets play a vital role in the economy. Not only do they permit businesses to raise the necessary capital to begin or expand operations, they also act to deny capital to inefficient businesses. In other words, financial markets and institutions (FM&I) play the crucial role of allocating capital to those businesses which use it most efficiently.

Businessmen and capitalists fill three vital roles in the operation of a business-- as entrepreneurs, as managers, and as providers of capital. As entrepreneurs, such individuals seek profit opportunities by finding new products, improving on existing products, and/or finding more efficient uses of capital and labor. As managers they plan and coordinate the productive activities of the business. As providers of capital they pay for equipment, supplies, and labor in advance of sales and profits. This course focused on this last role.

The businessman, Brook said, is a man of the mind. His efforts are primarily conceptual, and consequently, his contribution to productivity is generally not perceptually evident. In contrast, the laborer's efforts are visible. This fact, in part, gave rise to the Marxist view that productivity is a physical, rather than intellectual, activity.

Brook pointed out the absurdity of this view. Imagine, he said, that a group of people decided to manufacture an automobile. They would have to purchase the tools and materials necessary, as well as defer their own compensation until the automobile could be completed and sold. Few individuals would have the necessary capital, or be willing to work for the requisite time without compensation.

FM&I (such as banks, insurance companies, stock markets, etc) raise the necessary capital by efficiently transferring savings (unconsumed production) to businesses. At the same time, they permit businesses (as well as individuals) to consume prior to the completion of their productive activities. In other words, investment capital permits businesses to exist before they are able to generate self-sustaining revenues.

At the same time, FM&I provide vital information to businesses by directing capital to its most efficient uses. By investing money in those businesses which are most

profitable, FM&I stimulate production in those businesses, while simultaneously decreasing production in less efficient businesses.

While this activity is absolutely necessary for a healthy and expanding economy, it is not perceptually evident. In a culture dominated by an anti-conceptual mentality, the result is an attack on those activities which are most conceptual. Brook identified the two primary philosophical roots of attacks on FM&I as Christianity (which regards interest on loans as immoral) and Marxism.

Brook then turned his attention to the 1980s to concretize these points.

Corporate executives are ultimately responsible to the owners, i.e., shareholders, of the company. Many managers are more concerned with retaining their lucrative positions, rather than returning a reasonable profit to the owners. As capital markets began investing in other businesses, the stocks of such companies declined. When the liquidation value (i.e., the value of the company's assets) exceeded the stock value, FM&I were in effect saying that the consumption of these businesses exceeded their production.

Takeover artists such as T. Boone Pickens and Carl Icahn recognized that these businesses were not using capital efficiently, and sought to purchase them. To raise the vast sums of money needed for some of these

purchases, financiers such as Michael Milken used high yield, high risk bonds (pejoratively called junk bonds) to finance these multi-billion dollar deals. Brook pointed out that the explosive growth in communications industry was largely the result of these high yield bonds, as companies such as MCI, TCI, and Turner used them to finance their businesses.

Milken's genius was that he recognized inefficiencies in the capital markets and found a mechanism for improving that efficiency. Not only did "junk bonds" fuel the growth in communications, they allowed T. Boone Pickens to force a restructuring of the oil industry. Similar results occurred in other

industries.

As a result of his success, Milken and his employer (Drexel Burnham Lambert) were vilified. In particular, two individuals with political ambitions-- Nicholas Brady and Rudolph Guiliani-- set out to destroy Milken and Drexel. They engaged in an unprecedented smear campaign which resulted in prison time for Milken and Drexel being run out of business.

The sad irony of Milken's destruction is that Brady and Guiliani were allegedly protecting the American public from the "greedy barons of Wall Street", yet it was Milken who improved the standard of living of that public. Milken's ability to direct capital toward its most efficient

use resulted in more choices for consumers, lower costs, and a higher standard of living.

Brook concluded the course by pointing out that economic defenses of FM&I are doomed to ultimate defeat. Because the source of the attacks on FM&I is philosophical, the only successful defense of capital markets must also be philosophical. Financiers, and indeed all businessmen, must understand that their efforts are not only economically beneficial, but heroic as well.

ANNOUNCEMENTS

§ Included in this issue of the newsletter is a membership/ subscription renewal form. The form also includes space to pledge contributions for *The Fountainhead* and *Anthem* essay contests.

§ Lyceum International will soon be announcing its 1997 schedule. For more information, contact Lyceum at (306)-479-4765, or you can visit their Web site at www.olympus.net/lyseumintl/

§ Contributions to this newsletter are welcome. For information, or to discuss article ideas, contact Brian Phillips.

§ The HOS Web home page is located at <http://members.aol.com/WSRoss/hos.html>