WHAT WENT WRONG?

Posted on December 28, 2008 by Keghart

Category: Opinions

By Avedis Kevorkian, Philadelphia, PA USA

One of the mysteries of my life is how I managed to gain an "A" in Economics, in university. Of all the subjects that I have had in my schooling, the one subject that I understood the least was Economics. When doing my "homework" at night, Economics was the last subject that I would study, because it would help make me sleepy; in fact, I would often take my Economics textbook to bed and I would be asleep in no time.

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I never finished reading any assigned chapter.

I eventually concluded that the reason for my not understanding Economics is because, by its very nature, it is not understandable.

This has been re-inforced by recent events, of the virtual meltdown of America's stock market and, in this global world, the markets everywhere else.

I have not understood the explanations of the meltdowns, even by a good friend whose knowledge of the subject scares me, especially when he tries to explain in simple English what has happened. Therefore, I have developed my own idea; I call it "Kevorkian's Theory of What Went Wrong."

Very simply, the banks and the financial institutions and the other organizations that created the mess forgot why they were in business. They thought that they were in business to make money.   Wrong! They were in business to provide a product or service. If they provided a good product or service, they would have customers and they would make money. If they provided a better product or service than their competitors, they would have more customers than their competitors and they would make more money. If they provided the best product or service they would get even more customers and they would make even more money.

Two examples, please, from my days in London.

• It was the leading mercantile establishment in Britain, with branches in other countries. Its products were known for being "value for money." It was said that most of the women in the country wore under-garments from the company's stores. Its food products were fresh and varied. It did no advertising and had no public-relations campaigns (sob, sob!). Word-of-mouth was such that everyone knew and trusted the company--and shopped there. Its major London store was the most profitable in the world on a per-cubic-foot basis.

Eventually, the family hold on the operations of the stores was lessened and the store's shares wore sold on the stock market. In time, the money-boys of the City of London (Britain's equivalent of Wall Street) became greedy.

The money-boys demanded more per share from the company. So, the company fired many of the sales staff, and the profits went up for the next quarter. The money boys were happy, but demanded more. So the company fired more of its sales staff, and profits went up for the next quarter. The money-boys were happy but demanded more. So, in time the company got rid of virtually all its clerks, the profits went up for the next quarter. The money-boys were happy but they demanded more. So the company got rid of some of its middle management, and the profits went up for the next quarter. The money-boys were happy but wanted more. So the company got rid of more of its middle management, and the profits went up for the next quarter. The money-boys were happy but wanted more. So, the company fired some of its higher management, and the profits went up for the next quarter. The money boys were happy but wanted more.

Then, something strange happened. The company started losing customers and, thus, money. It looked around for the reason. It hired experts, it hired pollsters. And, it was discovered that while the company was selling red, the customers wanted blue. What had gone wrong?

There was no one between the customers and top management to report that customers were seeking blue but the only thing on the racks was red. The company looked around for someone to blame; it sought scapegoats.

In one famous case, it sued one of its long-time suppliers claiming, more or less, that the products were faulty and weren't selling. The supplier counter-sued saying, "We produced to your specifications. It isn't our fault that you asked us to make red and the customers were seeking blue." After a great deal of acrimony, the dispute was settled; the terms of settlement weren't announced, but the supplier said it was happy.

Meanwhile, sales continued to slip. There were rumors of bankruptcy; and one hot-shot newcomer on the mercantile scene was rumored to be seeking to buy the company. Not to make this too long, the company retrenched, hired new people at the top, hired new designers, left its block-long headquarters office building and moved into smaller offices in a new building, and survived.

What had gone wrong? It thought that it was in business to make money. It chose to forget (or ignore) the fact that it was in business to provide products and services; that if it provided good products and services (as it had under the family management) it would draw more customers and would make money; if it provided better products and services, it would draw more customers, and it would make even more money; if it provided the best products and services it would make yet more money.

• It was the oldest bank in Britain--more than 300 years old. Its name was uttered in respectful whispers. The money-boys decided that the bank should be returning more money to the share-holders. The bank decided to enter the derivatives market--(No, I don't understand derivatives, either). It hired a young, twenty-something-year-old hot-shot and sent him to Hong Kong to play the derivatives market. However, the derivatives market was in Tokyo. But the bank had closed its Tokyo office to save money (and satisfy the money-boys).

So, here was the young man playing the market long-distance. But London was overjoyed, because he was reporting profits each quarter, and the money-boys were happy. Huge profits the next quarter, and more satisfied money-boys. And so it went.

Then something strange happened. The you-know-what hit the air-circulating device. It turned out that the young man was not making money, though he was reporting that he was. Whether he was a naive innocent who was being manipulated by the people in Tokyo (as I still think) or he was a crook, it soon became apparent that he wasn't really investing; he was, in effect, gambling. And he had lost 800-million pounds sterling (in American dollars of the time, that came to more than $1.6-billion!).

What resulted? The bank went out of business, its "assets" were sold to a German bank for the equivalent of $2, and the young man went to jail, though it was shown that he had not personally profited from the debacle. Needless to say, the bosses did not go to jail.

Why did this happen? Because the bank forgot why it was in business. It thought that it was in business to make money. Wrong! It was in business to provide a product and service, and that if it provided a good product and service it would have drawn customers (as it did for 300 years), and would have made money, and that if it had provided better products and services, it would have drawn more customers and would have made more money, and if it provided the best products and service it would have drawn even more customers and would have made even more money.

In America, the corruption set in slightly differently, and much earlier. In addition to companies getting rid of jobs--and rewarding the executives who got rid of the jobs--the money-boys developed a program that would enrich them at the expense of American industry. In 1972, President Nixon separated the dollar from gold, with the idea that the dollar would float. Instead, it sank. The solution?--print more dollars.

At the time, banks generally lent up to $10 for each $1 in reserve--which, even then, some people felt was too high. When the dam burst in September, some banks were lending up to $800 and $900 for each $1 in reserve!

This came about because over the years, the Repugnant Party began to eliminate regulations and controls on the financial institutions. What could not be eliminated was crippled so that they became ineffective. To top it off, those responsible for oversight didn't oversee. The mythology was that the less control, the better it was for the economy. With no one looking over shoulders, it was easy for the money-boys on Wall Street to devise ways of earning money--among which was encouraging banks to offer mortgages to people who were not required to make a deposit (remember the old days when 20 percent was needed?) and had no income (remember when people were required to have sufficient income to meet the mortgage payments?)--and everyone was happy making money.

Meanwhile the money-boys who earn money but don't create it were selling off to others the worthless mortgages. And, when someone noted that the financial emperor was naked, so to speak, the "capitalists" on Wall Street asked for socialist help from the very same government that had enabled the chaos to develop.

The (now reduced to nine) banks that helped cause the problem have had a partial take-over by the government, but the government--how conveniently and to the surprise of no one--has not forbidden those very same banks from declaring dividends to shareholders, the great majority of whom are (no prizes for guessing correctly) the directors themselves. It is estimated that these directors of the nine banks will pocket about $250-million of tax-payer bailout money! More rewards for failure--Oh, what a great country this is! But enough of this sickening summary.

My father used to tell the story of the farmer who felt that his horse was eating too much. So, he decided to feed it less.

Therefore, at the end of the day, when he returned it to the barn, he fed the horse less. The next day, the same thing. And, so it went till after three weeks, the horse was still working a full day, but eating virtually nothing. "This," said the farmer, "is wonderful. I think that I won't feed him anything." And so for three days, he worked the horse a full day but fed it nothing. On the fourth day, the farmer went to the barn and found the horse dead. The farmer was angry, and he cursed the gods: "What poor luck I have. Just as I had the horse trained to work without eating, he dies on me!"

This explains, albeit simply, the Wall Street-inspired meltdown that virtually brought America to its knees. (Isn't it treason when people act to destroy the country? Subject for discussion by lawyers.)

Any damn fool company can make money in the short term. Except for the money-boys of Wall Street and the City of London who think short term, companies should be thinking long term. But the banks and the financial institutions and the other organizations listened to the siren-song of their brothers on Wall Street and helped get rid of all controls and all regulations and as many regulators as possible so that there was virtually no oversight on the goings-on, because the horse was still working though eating less each day.

(An aside, please. As we all know, Wall Street is the home of people who earn money but don't create it. In order to "live" there, it is necessary to worship two Gods: of Deregulation and of Greed.)

So these so-called capitalists went to their cronies in government and said give us money, and their friends said, "Sure thing, Will 700-billion dollars be enough for starters?" (And, there are those who think that America is a capitalist country.)

There you have "Kevorkian's Theory of What Went Wrong." It probably will not get me the Nobel Prize for Economics but, somehow, I think that Professor Hoffman would not disapprove.