The Blame of the Game

By Brantley Thompson Elkins

As I write this, the U.S. Senate is taking up President Obama's stimulus package, and trying to get GOP support for it – even though not a single Republican voted for it in the House. Politics as usual.

From a very cursory look at media coverage, Obama's package seems to be a mish-mosh of measures, some of them actually geared to job creation, others just pet projects and programs favored by the Democrats. But it's all absolutely essential, we're told.

Didn't we hear that same line from Henry Paulson, the late unlamented President Bush's Secretary of the Treasury? As a Republican and a Wall Street type, his idea was to bail our banks and other financial institutions – supposedly so they'd start making loans again. Only they weren't actually required to, and they aren't.

Meanwhile, knee-jerk liberals and conservatives continue to play the Blame Game. And it's a pretty simple game: for conservatives, the villains are liberal social programs that promoted looser credit for the poor, especially minorities. For liberals, it's all about greedy financiers and businesses, ripping off ordinary Americans and laughing all the way to the bank.

Feb. 2 happens to be the birthday of Ayn Rand, and some liberal commentators are now blaming *her* for the financial meltdown. After all, former Federal Reserve Board Chairman Alan Greenspan was one of her acolytes back in the day, and at the very least he seems to have been asleep at the switch as Wall Street created an enormous bubble based on securities that the Masters of the Universe knew or should have known would become virtually worthless if there was a slump in the housing market.

People on the Left and the Right both seem to think that Capitalism in the classic sense was in play for the last several decades – since Ronald Reagan, anyway. But what we've really had is more akin to Putinism, the post-Soviet system in Russia in which the government favors oligarchs that favor the government. One might call it fascism, but that word connotes (even if it doesn't denote) the kind of racial and religious persecution and genocide that the Nazis will be forever remembered for.

With Putinism, it's all about "making money," but not in the sense of those classic John Houseman commercials for Smith Barney ("They make money the old-fashioned way… they *earn* it."). Actually *earning* money is anathema to both the Wall Street "wizards" who played with fire and ended up burning the rest of us, and to politically-connected businessmen. Rand herself called the latter the "aristocracy of pull," and the most blatant example during the Bush regime was the no-bid contracts during the Iraq War that funneled billions of dollars to Haliburton and other companies for shoddy work – at the very same time Bush was telling our soldiers to buy their own body armor.

Rand was wrong-headed on a number of issues, most of them not relevant here. What *is* is that for her; altruism was the root of all evil, and the corrupt businessmen in her *Atlas Shrugged* somehow had to be altruistic – no, they weren't interested in profits, just in serving the public interest. By contrast, Rand argued, greed was an unconditional virtue – a notion ironically echoed in *Wall Street*, where the ruthless Gordon Gekko (Michael Douglas) proclaims that "greed is good." But to call the people at Haliburton or Citigroup altruistic is ludicrous. What they were, and still are, is what Rand called moochers, but their motivation was and still is greed – only greed for the *unearned*.

Of course they were, and still are, incredibly stupid. When Citigroup's Robert Rubin was grilled by Congress about why he pushed his bank into the business of risky CDOs (collaterized debt obligations, which disguised packages of toxic mortgages and other dubious investments), he argued that *all the other banks were doing it*. He might as well have been some teenage junkie, arguing that everybody else is doing drugs. I understand that one of the formulas used by the "wizards" of Wall Street didn't even consider a downturn in the housing market as a factor to be reckoned with.

There's been a lot of debate over the regulation of the financial industry or lack of same. But the real problem has nothing to do with the Federal Reserve Board of the Securities and Exchange Commission. It's a matter of simple *honesty*. The Masters of the Universe were *cooking the books* to make their CDOs and other products appear to be worth more than they actually were, and to report "profits" that turned out to be illusory – only, not until after they had awarded themselves huge bonuses on the basis of those “profits,” after having already pulled down huge commissions for selling those financial products in the first place. One thing these people *hate* is the “Mark to Market” rule that calls on them to report their securities at their actual market value, instead of pulling an inflated value out of thin air.

It’s an ironic contrast to the “creative accounting” in Hollywood that cheats any writer or actor foolish enough to sign for a share in the profits of a blockbuster movie by pretending that even *Star Wars* somehow never made any money. What’s also ironic is that, chances are, the creators of “creative accounting” are the kind of liberals who make movies like *Wall Street*. Just about to be released now, by the way, is a movie called *The International*, in which Interpol agent Louis Salinger (Clive Owen) risks his life to bring down a powerful bank that is engaged in money laundering, arms trading and political assassination on a global scale. Maybe Salinger should have just gotten them into CDOs.

But you won’t hear any condemnation of “creative accounting” from Congress or the White House. That’s because the federal government, and state and local governments as well, survive on creative accounting. In an Op Ed piece last August for the *New York Times*, Michael Granof, a professor of accounting at the schools of business and public affairs at the University of Texas in Austin, gave some outrageous examples of what he called “Stupid Budget Tricks:”

> In 1991, the State of New York sold Attica prison to none other than itself. The buyer was a state agency that financed the $200 million purchase price by issuing bonds. The agency then leased the prison back to the state, with the lease payments being equal to the debt service on the bonds.
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> In substance, of course, the transaction was nothing more than a borrowing arrangement — the equivalent of borrowing $200 million from the buyers of the bonds. Nevertheless, the state booked the entire sale price as revenue for the year. The previous year, the state sold the Cross Westchester Expressway to the New York Thruway Authority — in other words, to itself.
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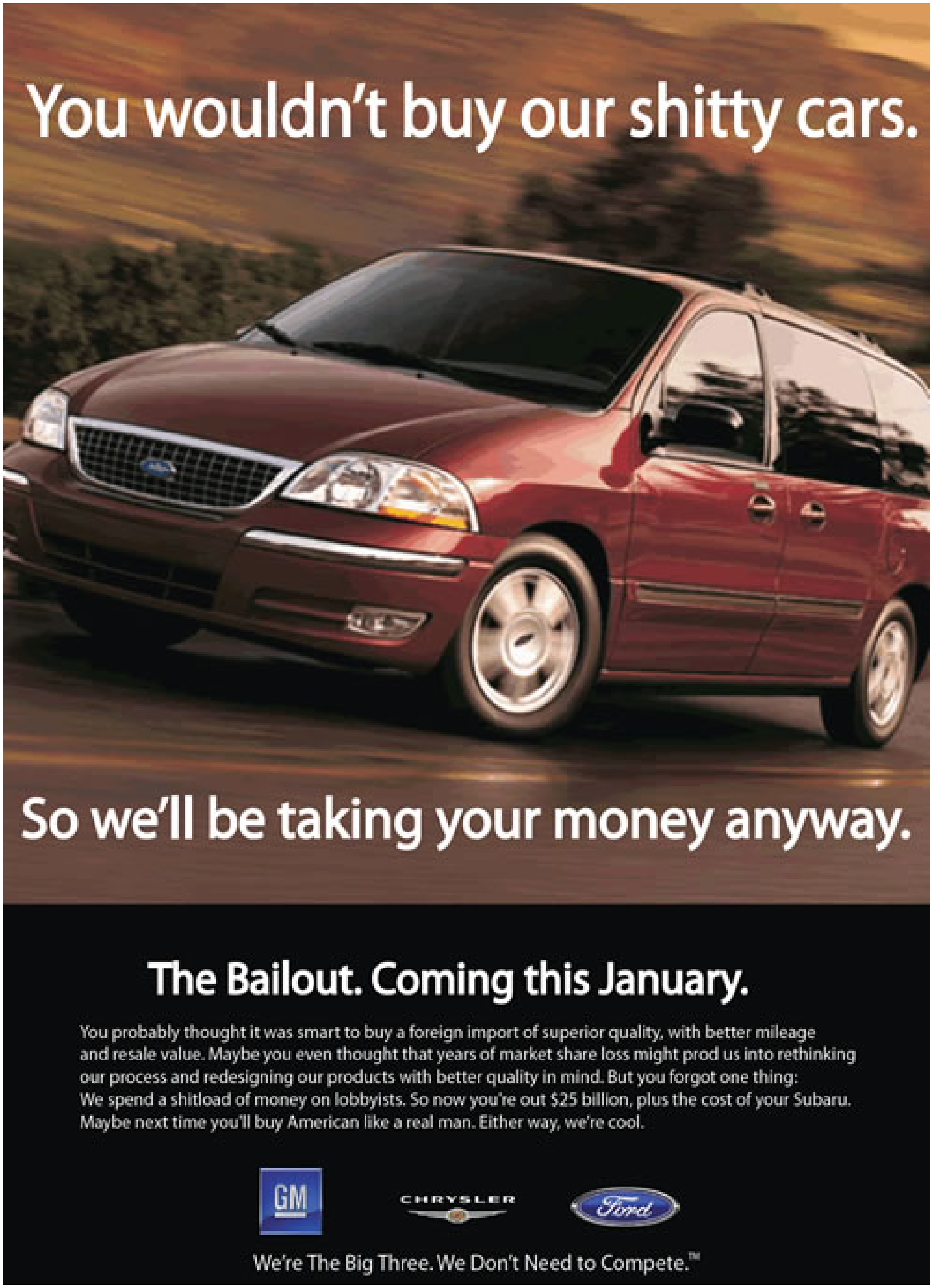
> New York is not the only state fond of this sort of budgetary dissembling. Gov. Arnold Schwarzenegger of California wants to reduce his state’s deficit by borrowing money from the future. His plan is to issue $15 billion in bonds that are backed by future lottery revenues. More than a third of that money would be used to ease California’s

current-year deficit.

Borrowing from the future to pay for the present is, unfortunately, becoming routine. In 2006, Indiana leased a toll road to a foreign consortium from Australia and Spain. The state received $3.8 billion upfront by surrendering the next 75 years of toll revenues. Other states have sold tobacco bonds that provide one-time infusions of cash — in return for forgoing 25 years of payments from cigarette companies that were supposed to pay for health care related to tobacco-caused illnesses.

One example Granof didn't mention is from my own state, New Jersey, which is notorious for fiscal chicanery. And not just by Democrats: It was the "brainchild" of Governor Christie Whitman, a Republican, to close a budget gap by floating a bond issue to fund state pensions instead of paying them out of current revenues. Out of sight, out of mind – but now the state is saddled with a huge debt because of that bond issue and other bonds for other purposes that were calculated to sweep their true costs under the rug.

Borrowing from the future has always been the basis of Social Security and other federal government programs. It will be the same with the economic recovery program, no matter how the details are tweaked. There will be rosy projections of how revenues will increase to pay back the $1 trillion or whatever, but they may be nothing more than wishful thinking – the same kind of wishful thinking that got Wall Street and the business community into trouble. Like the people in Detroit who couldn't imagine that the market for SUV's could ever collapse – and have now been bailed out to the tune of billions of dollars. A satirical ad late last year, before the bailout was approved, hit the nail on the head:



One thing for sure: Ayn Rand's steel magnate Hank Rearden would never have come begging Washington for a bailout. Neither would her banker Midas Mulligan. When Rand proclaimed Big Business to be "America's most persecuted minority," she apparently thought real-life big businessmen were all like Rearden. They aren't. But there is a more pervasive blindness I've observed among conventional conservatives and liberals: whether they profess to love capitalism or hate it, neither can seem to tell the difference between, say, Microsoft and Enron.

Now I saw *Pirates of Silicon Valley*, and I'm not going to argue that Bill Gates is a white knight. He screwed Steve Jobs (But then, Jobs had gotten the idea for personal computers from techies at Xerox, which was too stupid to develop the technology.). Still, Jobs can't complain about his financial as opposed to personal health. The point is, Gates and Jobs *produced something of value*. I'm writing this on a computer, and uploading to my website. Computers and the Internet are so essential to my day job that I can't really imagine how I ever got along without them. What Gates and Jobs have done to enrich my life is beyond calculation. No sane person can argue that he or she hasn't gotten their money's worth from Microsoft or Apple.

What did we get from Enron? *Nothing*. Ken Lay was a parasite, playing a shell game, who betrayed the trust of his investors and his own employees (When Enron was starting to tank, he dumped his own stock but forbade his employees to do the same.). The collapse of Enron also brought down the accounting firm Arthur Andersen. But until the shit began to hit the fan, President Bush and Ken Lay were bosom buddies. Lay *had* to be one hell of a businessman, because he'd made $700,000 in campaign contributions to Bush and shelled out $200,000 for his inauguration. But then Bush must have thought he was one hell of a businessman for having gotten the taxpayers of Dallas to pony up for a new stadium for the Texas Rangers.

With "friends" like these, capitalism sure doesn't need any enemies.

Now I know about as much about economics as about string theory, but there are a couple of ideas that have occurred to me from following the news.

• The term "investor" can be misleading. To my mind, the only true investors are venture capitalists and people who buy stock at initial public offerings (IPOs). They are the only people who pay for research and development, tooling up and whatever else a company needs to get up and running or stay up and running.

Ordinary people like me "invest" in 401K plans or IRAs or mutual funds for their retirement, or to supplement their working income. They are looking for a reasonable rate of return, but don't expect to make a killing. The companies they "invest" in never see a cent of their money. They don't do the companies any good, but they *want* the companies to do well because it's in their own interest.

Then there are the speculators, who would just as soon wreck a company. Until a short time ago, I had never known that "selling short" involves trading in stock that the speculator *doesn't own*. They're supposed to "borrow" the stock, but from what I've read they don't actually *have* to. Here's a terrorist scenario for you: Al Qaeda mounting a scheme to sell *everything* short and bring down the economy.

• There is no such thing as "business ethics." Businessmen have the same rights and responsibilities as anybody else – neither more nor less. And the best way to ensure that businessmen behave ethically is to treat them exactly like everyone else.

Suppose I'm too cheap to maintain my car. I'm driving around with bald tires and bad brakes, and end up running down and killing somebody as a result. I'd end up in jail. Now suppose I'm the CEO of a company, and I'm too cheap to ensure that my plants are operated safely. One of my plants blows up as a result, and a number of workers are killed.

Get the idea? Under current regulatory laws, my company might be fined but, hey, that's just the cost of doing business. But if I knew I could end up in the slammer, you better believe that I'd have a powerful motive to do my job right. It's the same with any number of other issues. As an individual, I couldn't get away with dumping my garbage on your front lawn; so as a manufacturer, why should I have the right to dump my toxic waste on other people's property?

Ethics and the law should be the same for the CEO and the ordinary Joe. The best among us will do the right thing as a matter of principle. Others may need the stick as well as the carrot. But the bottom line is *personal responsibility* – something sorely lacking on Wall Street, Detroit or Capitol Hill.