

# **Economics, Politics and a Book Review**

**By**

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## [\\$700 Billion Dollars: Dr. Evil would be aghast](#)

How can one deny that the U.S. Economy is in a shambles now? How did John McCain get to be nominee of his party with his lack of understanding of basic market fundamentals? Why did this all happen?

At my other blog – [Bringin' Gas and Dialin' 9](#) – I posted about this '[Perfect Storm](#)' in mid-July but only one person *responded to the charge*, [a Brit with wit](#).

The idea of us going into a Great Depression was bantered about on March 14, 2008 as the fall of Bear Stearnes took place. That almost seems trivial as Lehman Brothers, IndyMac Bank, and others have visited Davey Jones of the financial ocean.

But is **\$700 Billion** to Wall Street *really the answer*?

Dr. Evil would blush amid scornful reminders of his own idiotic plan: *"I will launch a 'Death ray' aimed at these Wall Streeters, to sooth my pain...Nice pussy" (Petting his cat.)*

It was interesting to watch Senator Hillary Clinton on Today, whose husband signed the law, the Gramm-Leach-Bliley Act of 1999, that unfortunately assisted in making this collapse possible (with ex-Senator Phil Gramm's urging, Senator McCain's go to guy for economic advise), call this *"The Perfect Storm."* No shit. You suddenly are a writer using wit to score points amid this fiasco you call a market?

Frankly, if \$700 Billion is available, I would suggest the following distribution:

1. *Wall Street has access to a \$100 Billion credit window.* Only if they do the following:
  - a) The 50 largest banks in the world sit down daily between 1PM and midnight in New York (or via satellite) and discuss the bad debt they generated. *They argue and discuss the whole problem everyday for as long as it takes* to figure out whose got what, what can be salvaged, and where does regulation of these exotic financial instruments go from here. I expect, no, **require** 2-3 weeks worth of hard work out of these \$2,500 suits wearers.
  - b) Set up reasonable terms with people making \$50,000 per year that have a mortgage. Cut back the bank's cut, and tell their stockholders it is this or, "the government will let us collapse."
2. \$200 Billion in infrastructure investments. Roads, schools, electrical power, storm walls and things that people need immediately done in their areas. This isn't rocket science. We know where the poor people are, and what they are not getting in the way of services.
3. 150 Billion in investments in energy and high-technology solutions to pressing environmental and energy crisis. The cars we drive are terrible on gas. Fix them. The analysis on global warming and farming concerns lack. Get'er done.
4. \$100 Billion to people that can not get student loans, car loans, home improvements or other needed upgrades. 2% interest rates per annum. Guaranteed qualification for it. Must make under \$50,000 per year.

5. \$150 Billion in job retooling of America. The country needs more than fast food, retail outlets and government teets to suck on. It needs an industrial, technological might that kept us near or at the top.

6. Foreign aid. (Of the \$700 Billion, \$21 Billion should go to overseas development in Africa and other struggling countries. Somehow, I think we can get people to join the Peace Corps, or other worthwhile endeavors if we pay the way for them to work on pressing issues.)

That's my plan. Wall Street doesn't get nickels for nothing.

### [Ahead of the Curve: Harvard Business School Book mixes with our government's recent history](#)

I just finished up [Ahead of the Curve: Two Years at Harvard Business School by Philip Delves Broughton](#), a memoir about his recent experience as a graduate student at Harvard Business School, class of 2006. Considered by most as the pinnacle school to receive that prestigious MBA at, Broughton's story (and the title aptly reflects) on what we should be considering *during these difficult times, and on the people who make these challenging decisions.*



President-Elect Barack Obama joins FDR, JFK and G.W. Bush as Harvard-educated Presidents

*As a first aside*, President George W. Bush ('75) and Treasury Secretary Henry Paulson graduated from Harvard Business. President-elect Barack Obama received his Juris Doctorate from Harvard. Michael Bloomberg, New York City mayor, amongst other things, is an MBA from Harvard. The always quick-to-be-proud of his business acumen, ex-presidential candidate, Mitt Romney, did his work at the Crimson. And today, on the 45th anniversary of his assassination, it should be noted Kennedy graduated from Harvard (cum laude) in 1940, majoring in government. (Thus the [Kennedy School of Government](#).)

So, *indeed*, being a Harvard grad has its potential perks and peaks of power.

Englishman Broughton *wrote for a living* before stepping into the hallowed foray that is Harvard. As a neophyte to the world of banking, finance, hedge funds and leverage buyouts, he got a crash course in what is the terminology, psychology, and manipulations of business numbers, and where it would lead him *even before he started the 1<sup>st</sup> semester* of his two-year trek. As he soon learned, there are no clear answers; just measurements of risk and reward, possibilities defined better, and the balance of what is important to know in business, and in life.

Relating to current financial malaise, a passage from the **Ahead of the Curve**:

“...I once asked a hedge fund manager in New York about the reckless way credit was sold to people who could ill afford it. I said they would be ruined. They would lose their homes and their possessions. Where were the checks on all of this? What would happen to all these firms lending like crazy when people stopped paying back their loans? The hedge fund manager looked at me like I was a madman and said, ‘*It’s just economic.*’ He meant that over time these borrowers would learn their lesson. The bankrupted lenders would be bought cheaply by other investors and turned around. The economic wheel would keep turning, no matter how many lives had been crushed against it...” (pgs. 232-233)

As we have seen with the demise of Lehman Brothers, Bear Stearnes, WaMu, IndyMac and others likely in the queue (GM, Chrysler, Lear Corp.), the economic wheel is spinning quite well as it has indeed crushed retirement funds, and stocks, and put people out of work in droves. (Citigroup announcing 50,000+ in job cuts in one week.)

Our current leader, George W. Bush, seems to have adopted a technique not-as-yet-perfected when he attended Harvard, but discussed in *Ahead of the Curve*, the levering up through debt. This preferred technique, of financing a buyout mainly through debt, thus *recording* interest paid as an expense (on that debt), produces more return on equity, to equity stakeholders, thus making them extremely happy. It works if you produce a profit, can generate the cash to pay the interest payments, and can keep other expenses down, preferably through frugality to all other concerns. At some point, you take the enterprise public again with all the miscellaneous expenses cut, but likely only a real benefit to the LBO starters of the once-fat company. The actual company, the workers, are unlikely to have received any benefits.

*(The 2nd aside)*

**How this relates to our current government:** During the Bush administration, we have ‘*levered up*’ the balance sheet of the United States. Taking on more debt, trying (but not succeeding) to trim other programs (those nasty entitlements) while keeping taxes on those multi-millionaires low, even giving a tax holiday to them for a decade. The low-interest rates that spurred out-of-control lending to the non-financially savvy, and the opportunists, that both got caught in the wheels of sub-prime and housing market free falls, has loaded up more debt on the U.S. Treasury balance sheet. We continue to make our interest payments on a **\$10,000,000,000,000 national debt**, of *at least* \$500,000,000,000. But when do we run out of *fiat money*? (At least if you don’t print, and print, devaluing our currency to the point of worthlessness.)

But as we’ve also seen, the entities under the auspices of too much leverage have indeed failed when the cash flows stopped to these many, many banks, insurance companies, manufacturers, retailers, and now, oil entities. The deflation of the value of things is reminiscent of the **Great Depression**.

*We are now Behind the Eight Ball: What Harvard Business School Did Not Teach President Bush.*

With a new President, Obama will have to get well ahead of the curve in order to stave off the impending doomsday scenario discuss on more than one occasion here, and now, at many other media outlets.

As Broughton also learned, business is not solely the most important entity – as ex-CEO of GE Jack Welch had surmised, *quite smugly* – as the government too, *has its place*. For one, without a government in operation, a business cannot protect its interest via laws or the enforcement of contracts. (*A business would have to act as a thug to accomplish contract enforcement. Essentially, become a government entity with enforcers and judges of people's misdeeds.*)

The argument made by Welch, that government generates no revenues, and business generates all the money, so we can ignore governance, leaves aside that a *symbiotic relationship* has always existed. Businesses can exist without government, but only for so long as people ascribe to obeying business edicts. Otherwise, chaos and revolt and failure soon comes. Governments can exist only if people are willing, and led to accept its rules, and abide under its control. And also provides some benefit, else, why have it. Neither operates in a vacuum.

The book presents Broughton engrossed in the whys of how he decided on Harvard B-School, only to not go immediately from there to a big corporate job, either as an marketing/product manager at *Google*, a hedge fund operator at *Bain*, an overworked, type-A financier on *The Street*, or a start-up city controller as he envisioned in one entrepreneurial leap-of-faith posited.

Mr. Broughton's book *maybe a business school companion volume of [One L by Scott Turow](#)*, the exploration of what it is to become a legal mind and those ramifications, but it truly reflects, that writers, *are what they are*: able to mirror, emote, characterize, judge, and divine truth *when at their best*.

That somewhere on the curve, there is a path to another road, with another curve to come out ahead on.

Let us hope America can get ahead of the curve on numerous fronts led by a man that is considered ahead of the curve by his education, his unlikely path to success, and his election against overwhelming odds just thirty years ago.

## [U.S. Economics 101: Frugalville vs. Consumption City](#)

This was an answer to a post and comment made by Yobachi from his blog [Black Perspective](#):

I struggled with this one, but here goes:

1) The airline industry is far, far different from the automotive industry. Barriers to entry, a service sector versus a manufacturer, lease of planes, hangers and in essence, people vs. ownership of huge fixed assets that dwarf even the Mall of America. The list can go on, but bankruptcy for the car industry *is not a neat package*. (**Hooters** ran an airline for a minute - *that should tell you everything about the ease of starting an airline*. You got some money?

AND have good credit? Go get some leased planes, and a terminal lease, a maintenance crew, jet fuel contract, hotshot pilot(s), boring booking agent, and hot stewardesses, *and you'll be flying in no time...*)

2) In fact, they (the big 3, maybe only 1) *may never come out* - due to contractual obligations, liquidations of assets at a % of actual value (in a deflationary economy) and the damage to the brand. You might not notice, but Toyota, Honda, Kia and other foreign brands have ramped up their marketing of products to take more market share from these failing companies...The big 3 need to reorganize and merge, and *innovate, innovate, innovate*, but they may be done for anyways.

I just don't want to hasten their demise...and you shouldn't either.

3) There is a forest called America that is hurting very badly under an enormous debt of barren trees. ALL total we have now, and its growing, *over \$52.7 Trillion in debt, public and private.* (I.O.U.S.A. -by Addison Wiggin and Kate Incontrera (Authors), David Walker (Foreword) )

4) In I.O.U.S.A., Warren Buffet, Barack's unofficial financial adviser, relates a story of how China is going to take over America.

Call it: *Frugalville versus Consumption City.*

The story goes, Consumption City once produced things but after it grew in size and wealth and credit worthiness, it got into consumption of all things from *Frugalville*. *Frugalville* made all types of things and save its money received from Consumption City...

Soon though, Consumption City *no longer had actual wealth, but bought on credit*, sending more and more money for those wonderful things...Eventually, since Consumption City had to pay off its debts, it went back to production, however, *Frugalville* now owned the means of production in Consumption City since *Frugal* invested all its money received from trading with Consumption City back into C-City.

This is what is happening...while *we think we can think our way out of this mess*, we have to start making things others want, and get back our money, *our wealth in America*. While I want this country to be a World Citizen, I also want us to be a producer of items.

5) This is not (completely) about the BIG 3 automakers, *but it is about the idea of having a manufacturing base exist still in America*. We have shipped off furniture, electronics, and other industries solely based on labor cost. Idiocy to believe we can just "*think*" and "*finance*" things to make money. *People always want products* – it is our job to do it *competitively*.

6) George W. Bush has destroyed our economic vitality under his watch. *While these problems existed prior to his administration*, no administration has created more havoc, across the board, as this one has. (It also had eight years to do it.) This from a Harvard MBA, schooled in finance and management.

Harvard *should go out of business* if this is what they are producing...

My goals in this response were:

- 1) Literally Fly-by-night Airlines are very different from a 100-year old automotive company
- 2) The United States of America still needs a manufacturing base
- 3) China is a threat to our national economic security – our trade deficit is outrageous
- 4) Bush did the most damage in our recent memory to financial dealings
- 5) Harvard isn't producing many good minds - unless they are named Barack Obama

(I hope.)

## **U.S. Economic Plan 2009: The Path to Economic Independence**

Recently, I took a hiatus from blogging heavily by playing an old game called **Colonization**. (Sid Meier, of Civilization fame, worked on Colonization.)

Now, the game is nearly 15 years old, the graphics suck, and the play is slow, and antiquated. However, it does one thing fairly well: *it mirrors the ideas of trade, money, tax hikes, and infrastructure building, or in short, the economic planning of a fledgling nation.*

We no longer are fighting for independence from a tyrannical king, but we are fighting the forces of **Globalization** during the midst of a once-in-lifetime economic mess. Housing sector damaged. Heavy industry nearly gone. Financial institutions teetering on the brink of collapse. The United States is no longer like it once was during its economic heyday of 1946-1972, before I was born.

In my lifetime, the forces of international competition from Japan, China, India, Mexico, Brazil and our former cold war foe, Russia, among others, have left us mired in a quandary of our own making: stuck believing the once considered impervious industrial might may resurrect while under-investing in education and technology and overlooking real budgetary and fiscal problems for the last 25 years. And the solutions to these often opposing forces will require sacrifice and a new vision to stem the tide of a soon-to-be overwhelming problem of under utilization and individual obsolescence.

We cannot continue to ignore serious flaws in how we promote our nation's success or fail to compete in a new international landscape.

**Internal Investment and Trade.** How we maximize trading partners is as much internal as it is external. We have logically tried to develop trading partners that can sustain and merit such ties. However, how many avenues or ventures have we short-changed in order to help another nation at the expense of developing a new product or technology base in America? Investment in eco-friendly and next generation technology has to be promoted to keep America at the pinnacle of world economy. Resting on our laurels of the 20<sup>th</sup> century is not an option.

Therefore, these would be my recommendations:

\$200 billion in immediate investments will be made in the U.S. auto industry over a period of 4 years. We will revamp the assembly lines; construct models that not only achieve high fuel economy, but will use electric, hydrogen and battery designs. As a result, many of the service stations we currently use, will also see much modification and upgrades. Road projects will be reflected in this new technology that all Americans must familiarize themselves with. This does not mean that every worker currently employed via this industry will stay – the industry will and has to become leaner and more efficient across the board. \$4,000 tax incentive vouchers for new “eco-vehicle” purchases will buttress these new programs while getting older, less efficient vehicles off American roads. Which leads us to the next program.

\$125 billion in environmental programs will be afforded over the next four years. These industries include solar, wind, geothermal (in concert with housing) and tidal programs will be researched, implemented and launched. The immediate deployment of green workers in “green alleys” those with all ready depressed housing markets, will result in improving current homes while harnessing designs for next-generation housing. Water usage, natural resource depletion and pressing environmental issues must be met head on by our scientists and business leaders. This broad investment will spur independent and private development with the hopes of turning America into a far more effective and efficient country. It will also lead to an “exportable commodities” that will be our way of stemming Global Warming and improving the world’s health. We will be the world leader in environmental investment, incorporating technology, manufacturing ideas and data systems into the mix. We will also assist those companies that create environmental programs, across all sectors, through tax incentives.

\$125 billion will be afforded in additional funding of education in various programs related to these and other new technologies. Our kids, our parents, and even grandparents, must be adept at using all levels of innovation and global tools to compete and succeed in this world. Many private sector partners will introduce America to these skills quickly. We can no longer wait to disseminate these skills to only the financially well off or tech savvy. Each of us needs to learn everyday – some need to catch up to their peers around the world. The new technology officer of the administration will work with the top information technology firms, small-but-innovative outfits, and large-scale businesses to adopt both at home, and abroad, a network that can educate and alleviate education and technology gaps apparent in our society.

\$200 Billion in direct funding of infrastructure projects and urban planning will be instituted. Some of these projects may have “to tear down in order to create” because we have misused land and placed housing developments in areas that do more harm or cost us opportunities to support our population as it increases in size. Americans most affected by these projects will be adequately and uniquely compensated in that they will garner first access to the “eco-houses” we intend to build, if they desire. Inconvenient though this seems, the long-term is what we are striving for.

Our destiny as a great nation depends on immediate action. As intrusive as it does or may appear, doing nothing or waiting for a market solution to appear on the horizon may prolong a painful readjustment to economic forces. Many of your neighbors need help now. Waiting is time lost to an enemy that has no time constraints.

We are not a nation of haves and have nots. We are an American nation that fought and won freedom time and time and time again. We are all sharers of this land's great abundance. We have to promote as much our economic fairness as we should promote the ability to grasp for that extraordinary potential of the human spirit and garner the rewards of that spirit. We will be better each day ahead – together, as one nation on a blessed mission.

Having the boots, roads, homes, vehicles and necessities to an independent life are at the foundation of this nation. We are all better when our neighbor can assist us readily and we in turn can assist them. This is our way of assisting – to promote economic diversification, establish new exportable commodities, rebuild the highways and highways of the human mind to a better, lasting prosperity. The long-term will see a better America for this investment that will lead to incalculable job growth, a technological superiority and ingenuity, yet envisioned.