

FRANKENSTEIN ON WALL STREET

By Michael Ventura

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Crisis Reality Check. Whether you call it a “bailout” or a “plan,” its primary purpose is to use \$700 billion taxpayer dollars to buy the finance industry’s bad debt. We can forgive ourselves our confusions when even the \$700 billion figure is, as one report put it, “fuzzy”: “It’s not based on any particular data point,” a Treasury spokeswoman [said]. “We just wanted to choose a really big number” (Forbes.com, Sept. 23).

That comment begs for a clever retort, but what can one possibly say?

The crisis is a credit freeze. Government responses may be unreal or surreal, adequate or inadequate, appropriate or a travesty, or (as I believe) all of the above. The crisis may have “just happened,” may have been engineered, may be half one and half the other, or even more complex than that. There’s room for argument. Beyond denial, however, is that Wall Street’s crisis is Main Street’s too.

From Maine to Montana, from New York to Georgia, administrators have delayed or cut projects for roads, emergency rooms, sewer treatment plants, what-all, because “[c]ities, states and other local governments have been effectively shut out of the bond market for the last two weeks, raising the cost of day-to-day operations, threatening longer-term projects, and dampening a broad source of jobs and stability” (*The New York Times*, Oct. 1, p.1). “A fund that invests cash for about 1,000 colleges and private schools suddenly froze withdrawals this week, leaving school finance managers scrambling to make sure they have enough money for payroll and other bills” (*The Wall Street Journal*, Oct. 2, p.C1). The Department of Education suddenly had to buy \$61 million worth of student loans because of Wachovia’s frailty (CNBC, *Street Signs*, Oct. 2).

As early as last July, “65 percent of domestic banks said they had tightened their lending standards for small businesses... 70 percent told the Fed they were charging more for those loans. And in an August opinion poll, two-thirds of entrepreneurs told the National Small Business Association that their companies had been hurt by the credit crunch” (*The New York Times*, Oct. 1, p.H4). By now, it’s worse.

“Retirees risk losing big chunks of their wealth and income in a single day’s trading, as many have in the last month” (*The New York Times*, Sept. 23, p.1). “Over the last six months, we’ve had the biggest rise in the unemployment rate in 25 years” (CNBC, *Street Signs*, Sept. 5). It’s estimated that 230,000 jobs will be lost this October. “There’s been a hiring freeze. Employers are afraid to hire. They don’t know what’s going on” (CNBC, *Closing Bell*, Sept. 30). As for auto sales, Toyota’s down 32%, Honda 24%, Nissan 37%, Ford 34%, Chrysler 33%, General Motors 16% (*The Wall Street Journal*, Oct. 2, p.B1). Said Chrysler vice chairman James Press, “It’s a bigger problem than \$4-a-gallon gas. We have buyers coming in, but they can’t get a loan” (*The New York Times*, Oct. 1, p.C1).

All of which is why Warren Buffet told CNBC on Oct. 1, “It’s a rescue plan for the American people, not for Wall Street.”

Well, not quite. It would be more accurate to say that in order to rescue the good guys (if we are the good guys), we have to rescue the bad guys (if they are the bad guys). Be

we innocent victims, and be they sinister perpetrators, we are all inextricably linked. Humanity's funny that way.

Frankenstein on Wall Street. In 1818, 19-year-old Mary Shelley prophesied our era better than any economist or philosopher when she published her novel *Frankenstein*. You know the story so I'll just summarize its moral: In trying to create a perfect human being Dr. Viktor Frankenstein's idealism sees nothing of itself and knows nothing of its pride. His pride is in thinking that just because he can do this thing, he understands what he's doing – but he doesn't. If he can conceive it, he thinks he can control it – but he can't. He thinks of himself as good, so he believes his creation will certainly be good – but he can't guess the darkness within his own soul, and doesn't realize that he can't help but transmit his darkness into what he creates.

That is the operative principle of what we call “progress.”

Relativity and quantum physics are marvelous, but they create atomic bombs. The internal combustion engine enables me happily to drive my beautiful '69 Malibu up and down this continent, but I, and tens of millions like me, have spiked global warming. Examples are legion. I call it “The Frankenstein Effect”: Lurking in what we want is what we do not want, lurking in what we do is what we do not intend, and the result, as often as not, is disastrous. Or, at the least, presents a damned thorny problem.

So I haven't the heart to blame my financial brothers and sisters too much when Frankenstein comes to Wall Street. They had an idea that seemed marvelous to them: Grant mortgages to as many people as possible; bundle those mortgages into bigger and bigger packets; use those packets as assets; sell those assets over and over in dizzying forms, so that credit could go on indefinitely with virtually no risk! For a while, everybody seemed so happy. “We don't remember many protests when home prices were rising by 15% a year, or when interest rates stayed at 1% for a year and real interest rates were negative for longer” (*The Wall Street Journal*, Oct. 2, p.18).

Of course there was chicanery! When is there not chicanery? (Humanity is funny that way.) Of course there were lots of eager people on the make! When are lots of eager people not on the make? We're very happy to entertain eager folk on the make while they're creating marvels for us, be those creations art or computers. Speaking of computers, these eager Wall Streeters were certain what they were doing was safe until “something happened that their computers told them should occur only once every 100 millennia” (*The Economist*, Aug. 16, 2007, p.9). Their elaborately conceived computer models said everything should be fine. Oops. It's intemperate to blame people for so human a failing as being wrong.

A personal note: I'm to the left of the American left. In my rash youth my definition of “liberal” was, “Capitalists who pretend to have a conscience. They're in ‘the struggle’ as long as real estate values don't suffer.” As a matter of fact, that's still my definition. My preferred economic philosophy is called, technically, “anarcho-syndicalism,” and I won't bore you with a definition of *that*. Define me as a defeated dreamer who'd rather be defeated than relinquish the dream. Be that as it may, in my rash age I know this:

There's a bit of the monster in every human being, or else we could not create so much monstrosity. And that is true no matter what our beliefs. (There's a bit of the angel too, but at the moment angels aren't our problem.)

The only surprise is that we were all so surprised when Frankenstein showed up on Wall Street. All those brilliant “financial instruments” turned into monsters that, to this day, no one can stop. What is that but history fancifully playing an old tune in a new key?

And hey – did the average American behave all that differently from those Wall Streeters? Including me, with two tapped-out credit cards? In fact, as a people, we’ve taken on \$850 billion in credit card debt (CNN, *The Situation Room*, Sept. 30). Throw in auto loans, student loans, mortgages, what-all, and you find that between 2000 and 2007 American *consumer* debt jumped 29%, “a bigger increase in seven years than had occurred in the previous 20” (*The Economist*, Sept. 27, p.90). How many of us have *not* contributed to this mess? Because it’s all about buying what you can’t really afford. My generation’s grandparents and great-grandparents believed you shouldn’t buy what you ain’t got cash for. My generation lost that discipline, and passed that loss on to our children. There aren’t many innocent bystanders in this crisis. I’ve got several plastic Frankensteins in my wallet.

Like the commercial says, “What’s in your wallet?”

Put it more poetically and accurately, in the words of the Greek poet George Seferis: “The stranger and the enemy, we have seen him in the mirror.”

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