



# **Letters From A Deeply Troubled, Trumpian USA America's March Toward Dystopia First Letter**

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*The urge for destruction is also a creative urge. Michael Bakunin Die Reaktion in Deutschland.*

March 9, was the 241st anniversary of Adam Smith monumental work's publication, titled, *An Inquiry into the Nature and Causes of the Wealth of Nations*, later, generally referred to just as *The Wealth of Nations*. This seminal work, de facto, created the field of economics as a unique branch of science.

Coincidentally, or perhaps not, it is now 26 years that Robert Reich published his book, *The Work of Nations*, clearly coopting Smith's title.

On that day, March 9, Professor Reich (and former Secretary of Labor in the first Bill Clinton cabinet) remarked with great sadness on his Facebook page, that instead of sharing the wealth between those who economically do very well and those who don't, which would be for the benefit of society, the haves did increasingly and lopsidedly better compared to the have-nots, who did decidedly worse.

This, of course, created the gaping misallocation of wealth that started with Reaganomics, aka, trickle-down economics, with the end of the Reagan-Bush (the père) presidency. Then, went into warp-speed, ever since. Those were almost the same years, 24, in fact, that coincide with the Reich treatise's prediction. Here, I must point out, that although Bush's (the fils) obscene tax cuts was a major accelerant in the misallocation, it covers 16 years of the 24 of Democrats occupying the White House. The Democratic rule not just didn't try to close the gap but contributed much to

it's widening during the last eight years of the Barak Obama presidency. I also must point out, that the gap is significantly larger for minorities, especially for African-Americans than for Caucasians. This is important to remember when one tries to figure out how and why it happened that Donald Trump became the 45th president of the USA.

But back to Smith. It was one sentence in the *Wealth of Nations* that gave rise to neoclassical economics, and *laissez-faire*, as championed by Milton Friedman and what is generally referred to as the Chicago School of economics:

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest” (Smith [1776, Book I, p. 11]).

But Smith's endorsement of the benefits of self-interested behavior depends crucially on the existence of competition. The role of competition in preventing exploitation of the market is intuitively reasonable and is at the heart of arguments in favor of so-called free markets (now, a euphemism for Capitalism because Marx gave a bad name to it). Smith envisioned atomistic competition

“. . . in which no agent of the productive mechanism, on the side of labor or capital, [is] powerful enough to interfere with or to resist the pressures of competition” (Heilbroner [1953, p. 58]).

Heilbroner reiterates the notion when he refers to "the great point that Smith made in his inquiry: let the market alone" [1953, p. 68]. In Friedman's (a pathological hater of government for which he had been accused of academic dishonesty by another Nobel Laureate, Franco Modigliani) terms, let the market alone, means keep the government out of regulating it.

Smith's admonishment to let the market alone has been misrepresented as a prescription against the principle of intervention. But Smith was a pragmatist economist, a revered Enlightenment philosopher, and humanist, who distinguished very clearly among different kinds of regulation [of markets]. As my dear friend and Smith's scholar, David Collison educated me, Smith also wrote that:

“Whenever the legislature attempts to regulate the differences between masters and their workmen, its counselors are always the masters. When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters” (Smith [1776, Book I, pp. 112-113]).

I dare to digress here with a bit of what you might consider gossip. At the entrance to the town of Kirkaldy, Scotland, there was a sign that declared, "Welcome to Kirkaldy," The Lang Toun. The birthplace of Adam Smith." In 1998, the sign was replaced to read, "Welcome to Kirkaldy "The Lang Toun Twin Town of Ingolstadt," where *The Scotsman* of 08/06/1998 lamented:

"How short are Scottish memories, in Fife in any rate, where the virtues of twinning with an industrial town in Bavaria have now taken precedence on public signs over the fact that Kirkaldy gave birth to Smith, a prophet, now dishonored in his Lang Toun."

Another intriguing quote from the same issue of *The Scotsman*, reflecting on Smith's wisdom is "The chief enjoyment of riches consists in the parade of riches." I have no doubt that this was the root of Thorsten Veblen's creating the concepts of "conspicuous consumption" and "conspicuous leisure," expounded upon in his 1899 book, *The Theory of the Leisure Class*." Veblen, by-and-large was pushed aside by the Chicago School because first, he was an ardent critic of capitalism, and second, didn't believe that human behavior can be totally explained by the wealth maximization principle of the Homo Economicus. Nevertheless, his ideas and insights were the foundations of what we call today, behavioral economics and behavioral finance.

"The let the market alone," in the stock markets, created the dogma that the role of management is maximizing shareholders' wealth (MSW, in the following). This contrasted with what was believed at the birth of the business schools as a legitimate academic concentration, and finance that sprouted from accounting as a stand-alone discipline, of maximizing profits. It was argued with great conviction that profits are an accounting concept that can be manipulated, subject to measurement problems, the murkiness of accounting principles and most of all rely on past data that assumed to be the same in the future.

The MSW principle, in contrast, was something that looked at the future. The first two components of the dictum are easily understood. Maximizing means getting the most of whatever we are concerned with. Shareholders are the individuals or groups of individuals who are owners, principals, or holders of stock certificates.

The meaning of the third component is not that simple, however. The word wealth is defined in the dictionary as "all goods and resources that have value in terms of exchange or use." Thus, the word wealth means value in this context. Using this definition MSW means obtaining the highest value for the owners of the firm. Value, however, is a conceptual Russian Matreshka with another layer to peel away. From the many

alternatives (for instance, intrinsic, future, present, replacement, etc., value) the only relevant one in this context is market value. The high priests of the financial economics of the Chicago religion translated market value to the current price of the share times the number of shares outstanding.

This is so because markets are efficient. I am curbing my enthusiasm here to get into the evolution of the concept of market efficiency because it would change this letter into a treatise. Let's just accept for the sake of continuing the discussion that it is a Pareto optimality because the market knows the best what value is, and it is the avatar of god. And thus,  $\alpha$  and  $\beta$  were born.

This was what we tattooed on the brains of MBA students for the last 30-40 years without much questioning validities. And then, suddenly, the market for MBAs went into overheated demand. This was also because the financial mavens of Wall Street were educated before the MSW appearance on fairy tales and war stories and were thus lacking the math, stat skills that MSW required, failed miserably during the 1970s crashes of the stock markets. Wall Street went to the extreme of hiring mathematicians and physicist to develop complex models to beat the market, and MBAs to serves as translators between the rocket scientist and management. As Raul Engel observed in the December 1972 issue of the *Canadian Financial Post*:

“If you'd gone to just about any portfolio manager in the bullish decade of the 1960s and offered to show—let alone sell—him a beta coefficient, he might have given you five minutes before showing you to the door. Who the hell needed math to make money? Well, not the whiz kids of Bay and Wall, whose mutual funds were going to the moon.”

And, indeed, there was a never saturated market for MBAs. The new graduates came at first with HP calculators with mortgage, depreciation, present and future values, the valuation of derivatives, and many other, newly-invented functions built in but later with laptops with which they could create sophisticated spreadsheets, run multiple regressions with unlimited number of variables, all producing numbers that one could put his fingers on. Whether these numbers had meaning or not, it was better than a figure plucked out of thin air, as the old-school graduates plied their trade.

According to *The New York Times*, in the 1990s, however, Felix Rohatyn (the financier who saved New York City from bankruptcy in 1975, with the creation of the Municipal Assistance Corporation) described derivatives as “financial hydrogen bombs,” built on personal

computers by 26-year-olds MBAs.

He also said earlier that the worst thing that happened to Wall Street was an MBA with a laptop.

What followed was Reagan's, who a religious addict of Friedman, including his idol's pathological hatred of government, Trickle-down Economics, with colossal tax cuts to the rich and the simultaneous increase of the deficit caused by a totally uncalled for an arms race with the Soviets to bankrupt the already bankrupt Russia. That was synced with simultaneous cuts of social programs to ease a bit on the deficit pressure, the start of the misallocation of wealth which creates today 95% of all the socioeconomic woes of the US.

As I noted earlier, those years included 16 years of Democratic presidencies that changed naught for the better. This is a must to understand why traditional Democrat voters showed the middle finger in the polling booths to the Democrat candidate. Then, because of that "Along came a spider." No, no, it is "along came" Trump who is no nursery rhyme as is little Miss Muffet.

The best description of what and who Trump is, in my taste, comes from Alan Grayson, a staunch progressive Democrat' ex-member of the House, whose term expired last year. Grayson, the *enfant terrible* of the Democratic party's establishment ran last year in the primaries in Florida for the Senate, against Patrick Murphy, an ex-Republican, born-again Democrat, who's retrofitting to a new party didn't go too far or too well. Yet, the party was in full force behind Murphy and he trounced Grayson 59%-18%.

Murphy ran against Marco Rubio for the Senate, who recovered from his embarrassing failure to challenge Trump as a candidate for the presidency sufficiently enough to keep his seat in the Senate by beating Murphy with a comfortable margin of 8 points that represented 77,000 votes. This was, however, not the first time that a born-again Democrat, ex-Republican, lost to the Republican against whom he was running. Perhaps, a lesson to be learned.

Grayson, a steadfast supporter of Bernie Sanders, likens Trump to Philip K. Dick's "crap artist." Dick, a brilliant writer of science fiction, whose many novels were turned into blockbuster Hollywood movies, was not too lucky with his sci-fi novels. The only one that was published during his lifetime was the "Confessions of a Crap Artist." This Dick novel was made into a French movie, titled *Confessions d'un Barjo*. The protagonist is Jack Isidore, a self-styled crap artist who cannot distinguish between facts and fictions. Because of this, there is a good chance that what Jack tells you is wrong or just the opposite. Is he a total liar? Not exactly. The French term for one like him is *barjo*, hence the title of the movie. He is not a paid liar, like many right-wing journalists or media commentators

today. But he has no idea where the truth lies.

So, it is not surprising that Trump claimed he won the election by a landslide. That the almost three million vote surplus of the popular vote in favor of Hillary was because of voters' fraud. That the turnout of his inauguration was the largest in history, when side-by-side photos of pictures of his and that of Obama, showed exactly the opposite. A terrorist attack took place in Sweden when the only thing reported by the Swedish press was an equipment failure at a rock concert. That his phones at the Trump Tower were tapped by Obama. That the murder rate in the US is the highest in 47 years, when exactly the opposite is true. Precisely, what Dick's Jack Isidore would have said.

Just a few days ago, on the 298th day after his inauguration, *Factchecker*, an independent enterprise of checking factuality of the president found Trump making 1,628 false or misleading statements. This number, though, should be changed to 1,627 because Trump also claimed that no president before him accomplished that much in that short of a time. With respect to falsehood and obfuscation, he definitely is correct.

But perhaps not. Although Grayson's analogy is colorful and tempting, after all, Trump is not a crap artist but a calculating businessman. Perhaps all his bluster and braggadocio serve to create a smoke-screen of general consternation of the things that come out of the mouth of the president, to funnel attention away from what is going on under the radar. And what is going on under the radar is conservative Republicans are ramming through legislation in Congress to do away with 70 years of social progress in America to make the ultra-rich, not just rich but stratospherically ultra-rich.

Thus, things are happening with excitements on a day-to-day basis, where I use the term in the narrow sense of not necessarily good. Last week, the Democrats immolating with the help of Donna Brazil's disclosure that the 2016 primaries were rigged against Sanders, to retract it within a couple of days, just to claim it again a day later, is just a fading memory. This week news is the Republicans being dissected by Roy Moore's sexual perversions 40 years ago, his refusal to quit the race, the Party's establishment doing everything to make him lose, and surprisingly, Alabama Republicans pledging support to a sexual predator/pedophile. And atop of all this, Trump's tweets to ridicule and insult (short and fat) N. Korea's leader as a substitute for a Gulf of Tonkin provocation in the hope to engage in a nuclear war with that country.

But for a more updated saga of our predicaments, in the next installment of "Letters from, etc.," if you are still interested.

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