

A Brief History of Incompetence

By Musafir

This is my firm belief, based on my life's experience, that with the exception of saints, artists and athletes, any educated person with average intelligence is capable of performing any average job such as running a country, running a company or running a financial institution. So, what makes an average Joe or Jane different from powerful people like Hank Paulson, Senator Shelby, Dick Flud, Martin Sullivan, James Cayne, Angelo Mozilo, Stan O'Neal, Chuck Prince, Allen Greenspan, Franklin Raines, Arthur Laffer, and Phil Gramm? The answer is networking and being at the right place at the right time.

If you doubt my statement, let me detail my thinking further. An average person may not attain the saintly status of a Michael Archangel. That takes tremendous altruism and character. An average person may never achieve the artistic acclaim of a Michelangelo. That requires dedication and perfection. An average person may not accomplish the athletic feats of a Michael Jordan. For that, one needs special physical attributes and enormous skill. However, any average, educated person can make a better decision than Treasury Secretary, Hank Paulson; can demonstrate greater character and national leadership than Senator Shelby; can execute better monetary policy than Allen Greenspan; can become a more credible talking head than Arthur Laffer; can be a better economic advisor to McCain than Phil Gramm; and can run Lehman Brothers, AIG, Bear Stearns, Countrywide, Merrill Lynch, Citigroup, Fannie Mae as well or better than Dick Flud, Martin Sullivan, James Cayne, Angelo Mozilo, Stan O'Neal, Chuck Prince and Franklin Raines respectively. Still not convinced? Read on.

This all started during the Carter era with the passage of 'Community Reinvestment Act (CRA) of 1977. This encouraged banks to give borrowers as much money as the they needed regardless of their ability to pay it back. Most of the CEOs mentioned above took advantage of that act. The talking heads like Arthur Laffer encouraged average Joe and Jane to keep on buying houses beyond their means and Phil Gramm thought that our economic fundamentals were still sound (until October 2008).

Hank Paulson took no action to curb these abuses. It certainly was not because he did not understand Wall Street's practices – he was a former chief executive of Goldman Sachs. And why was Congress so silent – including Senator Shelby, then, Chairman of the Senate Committee on Banking, Housing and Urban Affairs (from 2003 to 2007)? The Wall Street investment banking firms, their executives, their families and their political action

committees contribute more to U.S. Senate and House campaigns than any other industry in America. By sprinkling some of its massive gains into the pockets of our elected officials, Wall Street bought itself protection from any tough government enforcement agency.

And let us not forget Allen Greenspan. He laid the groundwork for these asset bubbles by lowering interest rates to historic lows. In an attempt to protect his legacy after the Internet-bubble collapse, Greenspan provided unprecedented stimulus to re-inflate the economy and maintain his popularity with Wall Street. But in doing so, he spawned the largest debt and asset bubble in U.S. history.

The investment banks, including all the companies mentioned above, raked in billions of dollars in fees, giving incentive to keep lowering underwriting standards, allowing mortgage companies to originate and sell even the most unscrupulous home loans, which Wall Street then dumped onto the investment community. Wall Street never once questioned the ethics of these activities; it too was focused on the enormous rewards that allowed its firms to pay out an unfathomable \$62 billion in bonuses in 2006 alone.

On December 5, 2007, AIG head Martin Sullivan told investors, "We are confident in our marks and the reasonableness of our valuation methods... have a high degree of certainty in what we have booked to date." AIG suddenly found itself swept into the financial vortex. On the brink of complete collapse, AIG pulled out its ace card... an \$85 billion bailout handed out by Treasury Secretary Hank Paulson. Soon after the bailout was reported, AIG allegedly took 70 of its "top performers," including 10 senior executives, on a week-long California boondoggle... courtesy of you, the taxpayer. Incredulously, the AIG execs ran up a \$442,000 bill, including \$200,000 for rooms, \$150,000 for meals, and \$23,000 for spa treatments. (–Quotes from Washington Post October 8, 2008)

Why did 'we, the people' fall into the traps of the incompetents? Why did we think that they were smarter than us? Yes, we ought to blame ourselves too. After all, as noted by Charles Sorenson, "It isn't the incompetent who destroy an organization. It is those who have achieved something and want to rest upon their achievements who are forever clogging things up."