PROFIT VERSUS SOCIAL WELFARE, CONTINUITY VERSUS CHANGE. THE VISION OF SOCIAL GOVERNANCE

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Abstract: Bankers didn’t want the change; they wanted the money of contributors without a reform of the financial sector. Although the idea of a reform and of a new regulation method was brought in the discussion in January 2007, it remained at idea level state. The idea of excessive regulation would have stopped evolution and this concept wouldn’t be sufficient to take action against regulation and considering innovation as part of the risk (innovation isn’t a real positive fact in the banking sector, because this innovation has as its base point derivate financial instruments that have no real foundation), but the risk is an integrated part of capitalism. The problem of these innovations was that innovation was directed toward the gain of banks despite their clients, be it an owner of a mortgaged house, this way being clear the idea of modifying the stimulus system of bankers to have an efficient reform at top management level and at a moral level for the American contributor.

Elections brought a new president, a new team that must share their vision and to reform the governance program. CONTINUITY VERSUS CHANGE is the main purpose of this research paper.

Key words: healthcare system, leadership by example, social governance, social welfare, transportation infrastructure

1. Introduction or the “360 degree” Change

Moreover than the classic resistance to change or path dependence in the moment of the installment at the White House of Barack Obama also appeared the reforming whiff expressed through the campaign slogan: “Yes. We can!”. The old guard, installed by George Walker Bush (at that moment considered “the black sheep” of the small club of personalities that had the position of Commander and Chief/President of the U.S.A.) and composed of Ben Bernanke (FED’s President), Timothy Geithner (chief of FED New York) and Henry (Hank) Paulson (Secretary of Treasury – equivalent of a European Finance minister).

Ben Bernanke remained and was reconfirmed by the Obama Administration on the position of central banker of the FED. If about Bernanke are few words to say: that he inherited the crisis in its pre-beginning stage and that he didn’t have systems and proactive models to level it, especially from his position, if he would have exposed the situation he would remain in history as the person that started the crisis. The fault regarding FED’s responsibility in anticipating the crisis would remain of the one that preceded Bernanke, respectively Alan Greenspan, he could have defused the situation before it would have escalated “the wall of common sense”.

2. About the Economic Team and its purpose

The North American lobby system, the best developed system from this vantage point in a monument of lack of common sense and of the incapacity to compared-analyze the economic situation: the imminent desire to obtain the needed sums for saving the ones “too big to fail”, but without offering something in exchange, at least from the moral perspective (not considering the active participation of the state in governing the saved companies through the exchange of stock packages versus the sums needed for salvation).

Another problem that couldn’t be seen as work characteristics by Bernanke was of solving the appeared situation in the T moment settled in the T+1 moment, a vision opposite to the vision of the Austrian school to solve the situation through a proactive vision over the system (Stiglitz, 2010: pp. 67-69).

An extended part had Tim Geithner. After his apprenticeship under Larry Summers and Robert Rubin (the economic architects of Clinton era, also called the “deregulation” era, a semi-functional era through the failed deregulation case of the public utility sector from the state of California) he served as main regulator of the banks of New York, one of them being Citibank – the biggest bank in the world at that moment valued after the value of their assets of 2.36 billion U.S. dollars, but he didn’t observed anything with their activity. From his work history 3 years are omitted, the 2000 to 2003 period, when Tim Geithner was financial director at Harvard University, specialized in long term investments, a position that led to massive investment in derivative corporate bonds (CDOs and CDSs).
After the investment politics, Harvard "managed" the counter performance to record losses of 20 billion U.S. dollars in the March 2009 – October 2010 period from an available pool of 37 billion U.S. dollars. Keeping him in the structure of Obama’s Administration could be seen as a reconfirmation of the American principle about Ivy League – school is created to know your future business partners.

The third member of the presidential economic team from the Bush’ era was Hank Paulson, Treasury Secretary, who came from the position of CEO at Goldman Sachs (the biggest net beneficiary of TARP). The big change brought by Obama was to replace the chess pieces between them in the same win-lose game (private gain – public loss). Bernanke was reconfirmed by the Obama Administration, Geithner for his outstanding performance in the public and private sector was advanced as Treasury Secretary, but Larry Summers (executive director at Harvard University) was appointed as coordinator of the economic team of the presidential administration.

A person that stood out in the period of real-estate crisis installment was Sheila Bair (director of Federal Deposit Insurance, FDIC is the warrant for bank deposits inside the United States of America) who had the meaning to be the unifying factor of the ideas and opinions of the ones that were evicted from their overvalued houses with over run credits. She was brought in the administrative-economic team to relate and section the right to reply and control in communicating with the banks that where avid after the free support of the state. This relatively new team was an economic vision team, that we can compare it with a team that has as main goal the creation of a compared analysis between the financial system (as an abstract element) and the sustainable evolution of the American economic model (as a general element). The psychological factor is the one that retains the attention in this moment – the phenomenon of escalating promises (similar to the one of promising something that is impossible to fulfill), a phenomenon easy to observe and easy to dispute, fact that led to the splitting of vision: the one of the Obama Administration and the one of the people. As an example we can have market regulation of derivatives – a lax version or super-flow one. In 1989 the regulation document of derivative financial instruments had 600 pages, in our days it has 7000 pages and counting, to which is added the truth that these regulations appear in the moment T+1 after the T moment when the exception was implemented, and not receiving a proactive or anticipative answer. Another vision of the team for economic vision was that to implement an answer to the detour taken from the "good path", although everything was adrift and with disastrous results for the economy, “the visionaries” trusted “the common sense” of Wall Street. But this common sense failed in the moment when they claimed the state bailout, and at the exposing of the problem to pay for their deeds, they answered that an immediate pay would led to prolonged recovery of the banking system with major influences on the American economic system and through the global connection, of the global one. The non-involvement of the state in financing the system’s problems would have led the American deficit with a couple of hundred billion U.S. dollars lower (till now the financial crisis consumed 1 trillion U.S. dollars in the bailout, 1.2 trillion U.S. dollars in exporting inflation through massive capital infusion of “new” dollars – 5 billion/day for 120 days – 1st installment: November 2010 – March 2011, 2nd installment: March 2011 – July 2011 and a possible 3rd installment: December 2011 – April 2012, meaning another 600 billion U.S. dollars pumped in the deficit, that are completed by the Operation Twist that led to shifting the payment of some short term debts of 400 billion U.S. dollars on the long run this way creating pressure for the interest rate and not accelerating inflation anymore, to which we can add the cost of the 10 years of war, of almost 5 trillions, that were partially covered through the infusion of capital in weapons and producers of motorized battle equipment, respectively Halliburton (company owned by Dick Cheney, the ex-vice-president of the U.S.A., during the Bush Jr. Administration) and Lockheed Martin, summing up to a total amount from the deficit that is negatively financed on the economic-military branch of 7.6 (8.4) trillion U.S. dollars, sum that represents almost 53 (59)% from the actual U.S. deficit, that represents a degree of indebtedness in the American GDP of almost 115%.

Another delicate problem was observed during the Clinton Administration: Main Street (“the street of real producers”) is financially dependent of Wall Street (“the street of non-real producers”; the street where we find the New York Stock Exchange, the FED and the SEC). This pseudo-symbiotic relation is characterized by syncope that are played through a form of manifestation of interest groups, these surfacing in the year 2008, through the battle for economic power financed by the state for private benefits: Wall Street versus the rest of the world (especially the U.S.). “The economic common sense” led to generating some “existential” questions from the bankers’ side, like: why more money were not obtained or why is it called “bailout” and not “recovery” or “investment program” (Stiglitz, 2010: pp. 72-75). The vision of economists on the situation was one of economic blackmail on Main Street by Wall Street, but overall it looks like a psychological blackmail (some war tactics underline the idea of building fear to dominate and manipulate the adversary – here the American people and its representatives). President Bush Jr. had minimum resistance in front of the economic vision of the future from Wall Street, but president Obama gave up instantly to psychological blackmail installed by Wall Street. The negotiations for the takeover of stakes in banks led to some offered share prices above the market level, fact that led to another hit for the tax payer (money that were intended to recapitalize were taken by the bankers as bonuses). The bonuses problem led to the incapacity of Obama’s team of vision to gain the confidence of Main Street. The political games on the TARP led to offering as leverage of some control levers through the obligation for transparency of commercial and investment banking politics and to lower the complexity of used instruments. Although to the private sector was demanded to lower the complexity of instruments and greater transparency, these demands didn’t want to be applied also in the public-financial-banking environment.
3. The March to a New America

Another problem in the future evolution of the United States of America is the social cost of medical insurance offered to the persons without financial support. Medicare and Medicaid are reinvented to broaden the pool of insured with another 40 million individuals, but the social cost is supported by small and medium business that are situated on U.S. soil, especially by medical research centers. As an example of the inefficient politics of the Obama Administration in the public healthcare sector is represented by the research company in genetics-oncology research Genentech (the North American research division of the Roche group) that has an extra expenses pressure through the new way of payment with the relation with the American government, the healthcare sector: 550 million U.S. dollars to continue their research in the domain; those money were obtained by the lay-off of employees that “cost” 550 million U.S. dollars.

We want to draw the attention to the American healthcare system because it is treated at its effect and not at its cause. Its effects are high costs, for example: an appendectomy without complications costs in an American hospital 20,000 U.S. dollars, an extremely high cost, reaching to open heart surgery at costs of 130,000 – 180,000 U.S. dollars, or for neurosurgery at a cost between 180,000 – 250,000 U.S. dollars. Here we can find the starting point of the weakness chain in the school component of the actual and future American graduates of Medicine. A complete study cycle at an Ivy League university in the medical area of expertise costs between 300,000 – 500,000 U.S. dollars, a sum that must be recovered and with an interest rate by the student that invests in its future, who at his turn wants to achieve his self interest, the one to assure a decent living in the distant future. But the vicious circle doesn’t stop here, we have to deal with the high costs of exploitation for the medical systems: a positron computer tomography from the latest generation (quality 4 Tesla imaging system) costs between 1 million and 3 million U.S. dollars, a correct cost from the technology point of view, but in a medical center will find the cost of running a scan with this type of equipment of 5,000 U.S. dollars, a cost that actually hides the faulty way of keeping under control the prices for the patient from the insurance company’s point of view. The insurance companies represent the real problem in the American healthcare system, because they parasite the host through their practices for controlling the cost – we can compare them with the cholesterol that files the blood vessels of the human body, this way blocking the good circulation of the blood and un-streamline the system, on the long term could provoke its irremediable collapse.

The environmental problem is also an important problem for the long term development of the entire world, but here the environmental politics of the U.S. doesn’t represent the problem, but the environmental politics of the Chinese companies is the problem, because we have to deal with a yield of 3 to 5 times smaller than of the Americans, and the problem is created also by the desire of the Americans not to enter a regulated system of green certificates and penalties for non-fulfilling the target for lowering the level of yearly pollution – this mandatory growth yield of pollution would mean rising environment costs for the American industry, here also including Main Street, as an example we have the failure of the Copenhagen conference from 2009, where a common resolution wasn’t designed. The way to go through the crisis like through trenches and with a vision of non-disturbance of the situation (the concept of “muddling through”) it’s a way that led to the difficult comeback of the American economy and of creating a slope with a trend that tends to zero for the global economy. This politics of “muddling through” represents also the end of an era of visions and global leadership of the United States, than when a leader doesn’t show that we have to face the rising of the ones from the second echelon and those will want to implement their own visions on the global situation, and not everyone will proceed like China and the zonal economic and commercial competitive control, but will want a rapid assessment (and sometimes armed) of their vision.

The republican-democrat politics (TARP was conceived by the Bush Jr. Administration and implemented by the Obama Administration) led to a costly politics for economic recovery and without lowering the systemic pressure of the way of granting banking credits. This politics is the exception that confirms the value of the classic reform model and of economic recovery conceived through the New Deal by F.D. Roosevelt. This New Deal, the Dodd-Frank act is a solution that could have been for the long term, but thanks to lobby teams on Wall Street they created a similar act with “Swiss cheese”: from the exterior is upright, solid and as a whole, seen in section it loses perfection and leaves room for interpretation. This crisis created splits in vision and in opinion between the American people, Wall Street and Main Street. The battle for TARP fund was led on all fronts and especially on informal foundation, fact that led to the disappearance of the sentiment of national unity characteristic for the American people. With the extinction there is created a dangerous gap that can be filled by fights of the ones, still, participants at the economic game, the ones that are part of the group that leads the game more from setting it at its limit and of the ones outside the game, they are outside the game after the social-political pressure created in the economy. At the next syncope there won’t be “dreams to follow” but only policies to be paid that will lead to the incapacity to maintain and evolve of the social component of the U.S.A. (Bodislaw, 2011: pp. 67-73).

High costs with education drive to its weak distribution to the American people, to which is added the weak investment in the K12 educational sector (the pre-college cycles). As an example we can give the connection between the K12 educational system and the Research & Development component of pharmaceutical companies. In the U.S.A. the 2 systems have the same yearly profit (the private sectors are considered) of 50 billion U.S. dollars,
but the rate of investment in research is of 17% in the pharmaceutical sector and 0.1% in the K12 educational sector, probably from here resulting also the illiteracy rate of the American people (25% confirmed illiterates from the total population).

Loosing global leadership isn’t observable on the short term but on the long term, because on long term the ideas and the American vision won’t be considered or will be totally disregarded in case of a new economic crisis. Although it exists and works efficiently the academic system patented by Harvard, leadership by example, here we have to deal with a special case in which U.S.A. can draw a theoretical moral vision that emergent countries can put them in the vision’s balance and can accept or not for implementation the given solution. Another problem is represented by the inefficiency to develop a sustainable system that includes the environmental protection system, the healthcare system, the inefficient educational system (all presented above) and the transportation system these inefficiencies are a minimum point for the trust of global partners in “the American dream”.

Obama is building his election speech for the 2012 campaign having as starting point maintaining the reforms in the healthcare system and the rehabilitation of the American’ roads. These roads were built in the 1965 – 1975 period and now they will enter a rehabilitation program, but we’ll talk about exorbitant costs for the next 4 years: 255.000 km of roads that must be re-pitched (the cost per kilometer, per lane is of 160.000 U.S. dollars) resulting in a total cost for this component of 244.8 billion U.S. dollars (the average for a 3 lanes going/3 lanes back).

4. Conclusion or the new Capitalism – the rupture needed for governance

The ethics and moral that we presented in previous pages can be observed through “the mirror of the soul” of capitalism and corporate welfare, capital market and the influence of state governance on the stock market (Young, 2009: pp. 45-98). These influences can be observed firstly in the way for choosing a presidential candidate against another, but after the election of a candidate it receives a higher degree of trust if the stock market of that country grows, even if that growth proves to be in lots of times unsustainable. Bill Clinton was in this situation, the same with Reagan, but the one that was the exception that confirmed the rule was Carter. Volcker managed to imprint a correction to this pseudo-theory, followed by Greenspan and now by Bernanke. In the U.S., the Congress succeeded through imposed regulations to stem the presidential meritocracy, this being stopped also by the bureaucrats, them having a bigger influence on the economy on the long term than the elected president. This algorithm is followed by the democrats too.

That is why, although importance is given to the political class, here including the legislative power (for the U.S.A. – the Congress), the followed politics by any rational being is that of own investment, respectively to protect their own investment/self interest. The long term forecasts are the ones that create the most irrational decisions, being without a real quantified foundation. The primary thinking way on own interests/investments is based on economic-financial analysis, that in many times can have components that are asymmetrically yielded. The economic agents are focused on executing the business plan than to worry on the evolution of politics, although they are in touch with it through the regulatory imposed changes (that could modify or wound the interests of the economic agent/individual).

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