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PUNISH THE BASTARDS !

An effective medicine for a chronic problem, confronting a patient, is a substance or treatment that is able to ameliorate that patient's suffering and excises the core problem(s), causing the malaise.

Such a medicine is sometimes called a *'magic bullet'*, especially when it relates to finding a cure for an ailment, the treatment for which had eluded scientists for a protracted period of time.

But the substance or treatment, used to treat the chronic medical problem, must not kill the patient in the process of eradicating, or arresting, the problem.

The Japanese bacteriologist, Sahachiro Hata (), is credited with the development of the Arsphenamine drug while working in the laboratory of Paul Ehrlich in Germany.

Arsphenamine proved to be very effective in curing syphilis at the turn of the 20th Century when syphilis was considered almost an incurable disease, depending on the length of time that a patient had been suffering from its potentially lethal effects.

With arsenic at its base, a total of 605 experiments were carried out on mice, nearly all of which died when injected with various arsenical compounds … until a newly synthesized organic, arsenical compound was found, one that was proved to be highly effective in curing syphilis.

Under the trade name, Salvarsan 606 – the numeral, 606, being the last synthesized arsenical compound that was proved to be highly effective at destroying the causative organism, Spirochaete Pallidum – Hoechst AG of Germany marketed the discovery, internationally, since not only did it cure syphilis, but it left the patient in good health.

(While Sahachiro Hata's name is linked to this medical discovery, Paul Ehrlich is often credited with its discovery, in part or in whole.)

At the root of an effective medicine or treatment, to be used to counter the harmful effects of a chronic problem, was that the medicine or treatment had to be the magic bullet, first and foremost, but without killing the host, suffering from the problem.

That was the mandate at the very core of the 1909 discovery of Sahachiro Hata.

This concept could be translated into the requirements of today's world, especially in respect of the latest financial crisis that has shaken the earth to its veritable bootstraps.

Looking back at the events of the past 20 months or so, no doubt The (US) Federal Reserve, led by its Chairman, Dr Ben S. Bernanke, must feel proud of its accomplishments since it is being credited with having found that correct medicine for what ailed the US economy: It threw hundreds of billions of dollars into the US economy.

By so doing, it averted what was being speculated as having the potential of being an absolute catastrophe for the entire US economy.

The hundreds of billions of dollars may well have ameliorated the immediate chronic problems, affecting the US economy, but it is highly unlikely that it left the largest economy of the world in a state of financial health.

It could be held that the medicine of The Fed could well have been instrumental in cutting a swath for ease of access of the next financial catastrophe.

As with The Plague of London of 1665, known as The Black Death, which claimed the lives of upwards of 100,000 people, the rats of London, carrying the lethal disease from one borough to another, so the economic *'plague'* of December 2007, which had its roots in the US, spread throughout the entire world – almost immediately.

The banking systems of the US, The European Union, Latin America and all points East on the globe must, today, feel very comfortable in the knowledge that, if things get financially sticky, again, then, they can just ask for some free (or cheap) money from the authority that dishes out the currency of the day.

Modern banking systems connect customers, who are, usually, desirous to save money, with investments, involved in reasonable projects and prospects, leading to increasing the wealth of customers.

Over the past few decades, one has witnessed that banks have, repeatedly, been rescued with cash injections, thanks to the generosity of various governmental agencies.

It must be only too clear to any reasonable person that the actions of The Fed, in feeding the US economy with fresh and almost unlimited amounts of capital at a time of dire necessity, while being instrumental in saving the country's bacon, so to speak, The Fed, also, exacerbated and encouraged bankers to continue in their long-term pattern of turning to the US Government when the going got too tough for them.

The question is: How long can this situation continue?

Since the founding of The Fed in 1913, this US Central Bank has repeatedly provided cash to banks in times of need.

Cash and interest rates have, historically, been considered the weapons of choice, as far as The Fed is concerned.

Sometimes, The Fed's cash was in the form of short-term loans that could be rolled over, if required, or, alternatively, The Fed's cash was lent at relatively very cheap interest rates, a curative that, effectively, increased the profits of banks by reducing the cost of their funding.

The actions of The Fed, also, however, obviated the need to leave The Fed's *'patient'* in financial health although, on the face of it, the *'patient'* may have appeared to have regained some semblance of health.

The Fed, in fact, seems to have forgotten the aims and objects of the mandate of the 1909 Japanese bacteriologist, Mr Sahachiro Hata.

The actions of The Fed, in effect, threw a heavy opaque blanket over the banks that required immediate help so that no intellectual light could enter the thinking of the managements of those banks.

It was so easy to accept The Fed's cash that bankers needed not to consider any other medicine for what ailed them.

It should be pointed out, at this juncture, that it was the banks, themselves, that caused the problems in the first place, either by accident or design, with The Fed, picking up the pieces.

And, as a by-product to The Fed's generosity and/or lack of perspicaciousness, the banks tended to be constructively encouraged to continue, taking imprudent risks.

And this, in effect, planted the seeds for future financial crises.

<u>The Great Depression And The Lessons, Never Learned</u>

Between 1929 and 1933, it is fact that The Fed, constructively, permitted far too many US banks to fail.

The reason: The Fed's monetary policy was unflinching and, also, far too tight.

In 1927, however, The Fed lowered interest rates and by this one act, alone, helped to fan the flames, leading to The Great Depression.

By the second half of 1927, rally after rally occurred on US equity markets.

It was an early *'christmas'* for many people.

So, in order to bring sanity to the marketplace, The Fed raised interest rates from 3.50 percent to 5 percent in 1928.

By that time, Wall Street indices were going through the proverbial roof: It was a bonanza like no other in the history of the largest equity market of the world.

Wall Street gurus, as is their wont, spouted statements of encouragement to investors, along the lines that they, the gurus, were certain that boom would continue for another year – at least.

'Buy! Buy! Buy!' The call went out.

The financial sector of the US economy loved the situation; and, it fanned the speculative flames even further.

The Fed did nothing, at this point in the history of the US economy.

Banks could have tightened up policing its customers in order to determine which of them was too highly leveraged or which of them was over-speculating in equities.

Banks could have stopped providing loans to certain customers for speculative activities on equity and other markets.

But the banks did not, in their collective wisdom, see the need to take any definitive action to stem the rampant speculation.

Had the banks determined to take such prudent actions, it would have ended their financial bonanza.

That would have meant a loss of profit.

So, managements of banks, for the most part, sat on their hands.

The banks, also, did not see the necessity to increase their capital bases.

It was all too easy to earn money from customers, who were mesmerised by the ever-rising Wall Street indices.

The Fed continued to do nothing; it determined to adopt the policy of laissez faire.

Thus, along came The Great Depression and the reinvention of the soup kitchens for the many tens of thousands of mendicants, roaming US streets in search of employment.

The Fed could never be blamed for creating The Great Depression, but its policy of laissez faire went a long way to perpetuate its bloom.

Over the years, it appears that The Fed has embarked on a policy of reducing interest rates whenever it is determined that there is a potential for a major financial problem.

Today, the interest rate is close to zero – a record low.

Every time that there has been an interest-rate reduction, it has meant more money for banks: They loved it.

So interest-rate cuts had the immediate effect of being, de facto, a financial lifeline for banks in trouble.

These interest-rate cuts planted the seeds, once again, for more financial crises to follow in the wake of the one that had just been, seemingly, averted.

Successive crises grew larger, and larger, and ever larger.

It seemed that the bigger the interest-rate cut, the bigger became the next crisis.

It was akin to a self-fulfilling prophesy.

There was no magic bullet, however.

Every financial crisis since the founding of The Fed in 1913 is different, but, at the same time, there were many similarities.

The world never seems to learn the lessons of history.

Lowering interest rates in times of financing need, looked at in retrospect, turned out to be little more than a financial panacea.

It did not leave the economies in financial health, but left the door wide open for the next crisis to follow.

The more buckets of cash that Central Banks agreed to give/lend to banks in times of need in order to act as an immediate curative for what was perceived as a crisis situation, that money turned out to be a method to permit banks to take further and larger risks – without fear.

After all, there was cheap cash, readily available, some of which may never have to be repaid.

The cash was provided by the taxpayers, by the way, although many people, conveniently, tended to forget that little matter.

When things were working in favour of the banks and finance houses, nobody complained; consumers thought about buying that new something or other, because financing was easily available with banks awash with cash.

When things turned wonky again, there was, always, the Central Banks, which could be assured of coming to the rescue of finance houses.

It was the game of musical chairs all over again: When the music stops, the banker to find a vacant chair and claim it as his own is safe.

And, when the music starts up again, have another go, round and round the circle of chairs.

<u>The Punishment To Fit The Crime</u>

Bankers rarely have to pay for their sins.

Bankers get paid no matter how poorly or ineffective they are in their craft.

The current modus operandi for most banks, the world over, is that the larger the bank, the more money is paid to senior management, with salaries and bonuses, reaching historically unbelievably high levels.

When banks fail and investigations are made into what caused the problems, invariably, one hears about the huge amounts of money that had been paid to the Chief Operating Officers, the Chairman, and so on and so on.

After the failure of a bank or finance house, one is often treated to the news that the Chief Operating Officer, or the Chairman, or some, formally highly paid official of the failed corporate entity, had just been appointed Chairman of a huge conglomerate – and will be paid another huge sum of money.

This medium will not bother to name names because, just about every day now, one reads about such august corporate appointments.

Today, one is told that there are to be reforms to the US financial system.

One is told that there will be more transparency, more accountability, and that more power should be given to this US Government department or that interdependent US-Governmental agency.

What appears to be missing, at this point, is that, when it is determined that a banker or members of the senior management of a major corporation, one whose financial failure could affect the entire economy of the US, acted imprudently or, alternatively, failed to take any appropriate action in a timely manner, he/they should be held accountable and should be punished for his/their action, or non-action.

In the construction industry, it is recognised as the accepted modus operandi, worldwide, that subcontractors are not paid the entire amount of a contract sum on completion of a project: There is, nearly always, a financial hold-back just in case something goes wrong within a certain, contractual period of time.

No so for senior management of large corporations or banks: There is no hold-back of anything and so, when things go badly wrong, senior management can just walk away from the problem, scot-free.

What is being considered by the US Government, today, in order to reform Wall Street, does not appear to address the real problem: How to prevent bankers and officers of finance houses from taking excessive risks with public funds.

Bankers, who put their institutions at risk, do so without fear of reprisals from anybody.

If they get the sack in the process of their misfeasance, mismanagement or maladministration of their organisations, they just go home with their pockets, bulging with cash – their remunerations and bonuses and what-have-you all intact.

And, then, they just wait for somebody else to offer them jobs, running other organisations.

After all, consider their experiences at their former charges.

The perfect *'crime'*.

Aside from making certain that banks are sufficiently capitalised and all of the other technical matters, relating to healthy balances sheets, etc, there is that ever-important matter of the bona fides of senior management.

The suggestion could well be made that there is a need to inculcate deterrent punishments in contracts for senior managements of banks and finance houses, punishments, in fact, to fit the crime.

In short, there ought to be a ‘Punish the Bastards!’ clause in employment contracts.

As with the construction industry, a hold-back clause could be inserted into every contract where a person is appointed to a senior position in a bank or in a large important organisation.

In the event that that person does not perform in accordance with his contractual obligations: Punish the Bastard!

The punishment to fit the crime would, of course, be that person’s remuneration – both past and future.

This concept of punishment to fit the crime could include the entire board of directors of a bank, if necessary, when deemed fitting and proper.

It was only last week that the Chairman of HSBC Holdings plc, Mr Stephen Green, went on record as stating that the entire banking industry *‘owes the real world an apology’*.

Mr Stephen Green said, inter alia, that the banking industry, collectively, owed the apology for its part for perpetuating the financial crisis.

He is quoted as saying:

> *‘It* (the banking industry) *also owes the real world a commitment to learn the lessons. Some of them are about governance and ethics and culture within the industry … You can’t do all this simply by rules and regulations …’*

Mr Stephen Green, also, talked about integrity, and so on and so on.

Well, nothing moves man more than the potential for financial punishment for his misdeeds or, simply, being asleep at the wheel.

Man, by his very nature, is acquisitive and greedy.

It is man’s heritage; it will always be part of his make-up, sadly.

The deterrent punishment, which could help to keep man in check, is a punishment to fit the crime.

It will not wipe out the crime, but it will cause man to consider the consequences of his acts in the event that he gets caught.

Punish the Bastards!

The winners circle is for the winners, not the losers.

Bankers, perhaps, have to be reminded, from time to time, that their total remuneration packages are predicated by their abilities, not by any divine right, such as sitting in the chair, reserved for the chairman or managing director.

He who transgresses must face the consequences.

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