Are Bankers Idiots?
And How About Us?

[This is a letter I sent to friends on Nov. 10, 2008, together with an article from the *Financial Times* (appended below). –S.H.]

Hi everybody,

Below is an item a friend alerted me to which you may or may not enjoy—depending on whether or not you are yet a victim of the current financial/economic crisis. It is about a hedge fund manager who, unlike others of his ilk, actually timed his bets correctly, got out in time, and made a huge fortune.

This dude, Andrew Lahde, lambastes the "idiots" running the big banks who were willing to take the other side of his bets. This raises the question of whether these bankers and Wall Street financiers really are idiots or not. Let's think about that for a minute...

An idiot, in the common usage, is a particularly foolish or stupid person. Many bankers and financiers have very good educations, MBAs at least, and often degrees in economics and so forth. Some have other graduate degrees. A few even have so-called "Nobel Prizes" in economics (like the geniuses behind the Long Term Capital Management hedge fund that collapsed in 1998)! So by currently prevailing standards they don't seem to be ignorant or stupid. For most of them, their gambling in stocks and derivatives like Collateralized Debt Obligations and Credit Default Swaps looks pretty foolish *now*, but at the time this was considered eminently sensible behavior in their milieu. It did not appear *then* that they were like foolish teenage drunken drivers trying to beat the locomotive to the crossing! Hell, most of them were not even *aware* of the locomotive's approach!

And as for Andrew Lahde himself, he apparently did hear the whistle and did make it through the crossing just ahead of the locomotive. But is he really any less foolish than all those who didn't make it? Or just a whole lot luckier?! Isn't it conceivable that the whole rickety financial house of cards could have come down a few years sooner if some tiny things had been different here and there? And what would have happened to Lahde then?

Whether someone is really an idiot or a fool instead of simply being a victim depends on what they could and should have known in advance about the situation they were getting themselves into. And here's the interesting part: Given their class position and outlook the bankers and big investors almost *could not* have been fully aware of the danger. Their ideology blinded them to the true risks and inevitable results from what they were doing, both for themselves and for the whole society that they and their class controls.

It is popular these days to rail against "class truth". And while it is in fact the case that there is only one genuine truth about any given matter, different classes often definitely *do* have different ideas and conceptions about what that truth really is. There are certainly different class *conceptions* about the truth! And in particular, the bourgeoisie *cannot* possibly accept or understand that its economic system *requires* the massive creation and continually faster expansion of debt. (This is because the workers are paid for only a portion of the value that they produce for the capitalists. So they can only buy back all that they produce if they are granted ever more credit.)

Nor can the bourgeoisie face up to the fact that this debt bubble must eventually burst. Even when it *does* burst, they cook up all sorts of absurd explanations for why this happened, none of which have any relation to the basic functioning of the capitalist system. It was due to insufficient government regulation of the markets, say the liberals. No, it was due to too much government interference in the economy, say the conservatives. Or it was due to the excessive greed of some individuals, something which supposedly is part of human nature. Or it was due to too much globalization... or too little! Or due to the Chinese and Japanese. Or whatever.

And, on top of all this, very few among the bourgeoisie can possibly come to understand that the scarcity of highly profitable investment opportunities (because of the limited markets for what they produce) inevitably leads them into speculative manias near the end of each major boom. After the collapse of one of these manias, then, yes, it does become apparent even to most of *them* that they made a big mistake. But rarely *during* those manias!

We Marxists (at least to the extent that we study, grasp and further develop our own theory in a scientific manner!) have a very different understanding of how capitalism works. We start with a firm understanding of the most basic fact about capitalism, the continual extraction of surplus value from the labor of the working class. We understand from the get-go that the workers cannot possibly buy back all that they produce for the capitalists. Compare this with the nearly universal doctrine in bourgeois economics known as "Say's Law"—that supposedly capitalism generates all its own markets. (Keynesians and "Post-Keynesians" also reject "Say's Law" to one degree or another, but tend to think of this as only a limited and short-term problem with capitalism that can easily be patched up with the proper Keynesian tools.)

Thus we Marxists understand that debt bubbles (and additional speculative bubbles) *must* be built up under capitalism, and that eventually these bubbles *must* pop! This is something very basic, and even very limited—since, for example, it doesn't tell us *when* those bubbles will pop. But it still puts us leagues ahead of the bourgeoisie and their economic "experts"!

Thus it really is true that bourgeois thinking about the economy is inherently "idiotic", in some respects at least, as compared with Marxist thinking. Even if bourgeois economists have inside access to much more economic data than we do, even if they are better trained in some respects to process the meaning of short-term economic statistics than we are, nevertheless even the greenest young Marxist who has just grasped the nature of surplus value and the necessity of ever-growing debt bubbles is far less foolish about the fundamentals of capitalism than the most exalted economics "Nobelist" is!

If one's ideological outlook on political economy is basically incorrect, as it is for the bourgeoisie, then one must eventually prove to be an idiot. At least as compared to someone with a basically correct ideological outlook.

Unfortunately, it is possible for us Marxists to still be somewhat "idiotic" about the economy too, even though we do understand some very key points that the bourgeoisie cannot accept. Because of the scientific insights of Marx, Lenin and other Marxists, we have a higher standard to meet in this area than the bourgeoisie does. While we do know that all the debt and "asset" bubbles (housing bubble, stock market bubble, credit card debt bubble, government internal and foreign debt bubbles, etc.) must *all* eventually pop, it is much harder to say precisely when, and in what order precisely, and what the immediate ramifications of each popping will be exactly. And it is usually hard to say what sort of recoveries will occur in between these popping events, how impressive or unimpressive they will be, and how long they will last.

We regularly find that bourgeois economists and bourgeois business and economics publications know many details about the present economic situation that we don't, and are thus in a better position to make short-term forecasts than we are despite our knowledge of Marx. Therefore we need to pay attention to them and learn from them too. Sometimes I say to myself: Marx and Lenin for the basic situation and the long-term outlook; *Business Week* and *The Economist* for the current surface situation and the short-term outlook.

But there are dangers even in that, such as when the deep underlying contradictions lead to a sudden qualitative leap in the economy as happened in mid-September. *Business Week* on September 1st was no guide to *that* short-term development!

Another danger here is that we might end up focusing too much on the short run, spend too much time reading *The Economist* and stop reading Marx. It is possible to get sucked back into an essentially bourgeois understanding of the economy in spite of ourselves. Fortunately, this is less likely at the moment than it has been for several decades! After all, real economic hell has started to break out, and even an occasional article in the bourgeois press is starting to appear which wonders if maybe Marx was right about capitalism after all!

But during the 70s and 80s there were many Marxists who were predicting, if not a depression, at least a much greater U.S. and world economic crisis than actually developed at that time. Some of these people came to think that events had proven them wrong about a looming intensified economic crisis. Thus the RCP, for example, erroneously decided that the developing economic crisis that began around 1973 had somehow gotten silently "resolved" (or at least largely resolved) at the time of the collapse of the Soviet Union. [See their 2000 document "Notes on Political Economy", and my extensive criticism of it in "Notes on 'Notes on Political Economy'" at http://www.massline.org/PolitEcon/ScottH/NotesNPE.htm]

What those of us (and yes, I'm one of them) who expected a major worsening of the economic crisis two or three decades ago did not fully understand was the extent of the remaining "reserves" of U.S. imperialism and world capitalism at that time. I found the late 90s "Dot.com" boom in the U.S. particularly surprising. (John Bellamy Foster and the *Monthly Review* folks later explained that quite well, however, as being accomplished primarily by the enormous expansion of consumer debt that occurred during that period, and only secondarily by the ridiculous speculation in “New Economy” companies on the Internet.)

It has turned out that those (like the RCP) who thought the long, slowly developing economic crisis which began 35 years ago got resolved in the early 1990s were quite wrong, and by this point demonstratively wrong. But it has also turned out that the steps toward a new depression were *also* much more drawn out than many of us expected way back then.

I hope I’m not being overly cautious (which is not like me at all!), but even now I’m not completely sure how close we really are to a full-scale depression. I have no doubt that there will be one “relatively soon”, and very likely within the next decade or so. And it might even turn out that historians will mark 2008 as the beginning of it. We now mark 1929 as the beginning of the Great Depression of the 1930s, even though that was far from evident (or even truly “necessary”) at the time!

I have no doubts that the Marxist political economy of capitalism—while still not complete or perfectly worked out—is vastly closer to the actual truth of the matter than is any form of bourgeois political economy. This gives us tremendous advantages over the enemy when it comes to trying to more fully understand the situation. And yet, I can’t help but feel that a lot more work needs to be given to further developing Marxist political economy, *especially* given the present developing situation.

I think that Marx would be quite disappointed in us to see how little we have advanced in this area since his time.

We Marxists are by no means inherently smarter than non-Marxists, or even than bourgeois ideologists, but we are in fact viewing the world from the perspective of a more scientifically correct political-economic theory of capitalism. If we can just further develop that theory to fully account for all that has happened since Marx’s day, and to account for what is really happening *right now*, we will really have something useful!

Scott

Hedge fund king bows out with blistering rant on ‘idiot’ bankers

By James Mackintosh

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A hedge fund manager who made what is thought to be one of the biggest percentage profits of all time bowed out of the business yesterday with a fierce attack on the "idiots" running big banks who were willing to take the other side of his bets.

Andrew Lahde, founder of California's Lahde Capital, used his farewell letter to investors yesterday to round on the US "aristocracy" able to pay for their children to gain a top-class education.

Mr Lahde, who has made tens of millions of dollars from his highly successful bets against the financial and property sectors during the past two years, also called for the legalisation of cannabis and said he was now dropping out to spend time with his money.

Saying he was "in this game for the money", Mr Lahde went on to mock those who traded with him.

"The low hanging fruit, ie idiots whose parents paid for prep school, Yale and then the Harvard MBA, was there for the taking."

"These people who were (often) truly not worthy of the education they received (or supposedly received) rose to the top of companies such as AIG, Bear Stearns and Lehman Brothers and all levels of our government.

"All of this behaviour supporting the aristocracy only ended up making it easier for me to find people stupid enough to take the other side of my trades. God bless America."

Mr Lahde is one of the few hedge fund managers to have correctly predicted the subprime crisis. One of his funds made a return of 870 per cent last year. Money is now being returned to investors as the remaining business is shut down.

Yesterday, Mr Lahde said he would no longer run other people's money, preferring to concentrate on managing his own, and urged wealthy hedge fund managers and corporate chieftains to "throw the Blackberry away and enjoy life".

"I will let others try to amass nine, 10 or 11 figure net worths," he said.

"Meanwhile, their lives suck . . . What is the point? They will all be forgotten in 50 years anyway. Steve Ballmer [Microsoft chief executive], Steven Cohen [founder of hedge fund SAC Capital] and Larry Ellison [chief executive of Oracle] will all be forgotten."

Mr Lahde did not immediately return calls.