THE GLOBAL FINANCIAL CRISIS – THE CONSEQUENCES OF SINS OF THE (AMERICAN) FATHERS OR, THE TERRIBLE RESULTS OF A GOOD IDEA GONE BAD

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Abstract: *It is generally acknowledged that the global financial crisis originated in the United States. As an American who has lived in Europe for a decade, I want to provide a perspective for your consideration. My opinion may be somewhat or a great deal in error, but I will share it with you in the belief that it is at least approximately accurate. It's a story of a good idea gone bad, a generous civic response to an on-going problem that was hijacked by white-collar criminals.*

Key words: Slavery; black families; minorities; sub-prime mortgages; red-lining; dishonest brokers; Community Reinvestment Act; Civil Rights Act of 1964;.

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1. INTRODUCTION

My version of this story begins two and a half centuries ago when the engine of the U.S. economy was the slave trade. With a great deal of fertile land and a shortage of people to do the work, slave labor was an easy and affordable answer. It was such a reasonable solution that even otherwise thoughtful people (such as the American founding fathers) seem to have agreed that while slavery might be an ethical compromise, economic necessity made it possible to determine that Africans were somehow less than fully human. Even President Abraham Lincoln, remembered as "the Great Emancipator," was not antagonistic to the idea of slavery. However, he had to confront the growing sentiment (and the devastating Civil War between the slave states and the free states) that slavery could not be sustained in "the land of the free and the home of the brave."

2. A SMALL DOSE OF HISTORY

After more than 100 years of struggles and deprivation, Africans and their descendents were granted fully-human status in the United States. But -- their distinctive pigmentation made them easily identifiable and led to generations of discrimination that was never fully addressed until President Lyndon Johnson signed the Civil Rights Act of 1964. In doing so, Johnson ended his political career. His supporters in the American south, the traditional home of Democrats, abandoned Lyndon Johnson and the Democratic party to reform the south as the new heartland of the GOP, the Republican party.

With the passage of that legislation, it became necessary to notice black people in America, and the extent to which they had been discriminated against in every way possible, from segregated drinking fountains in public places to segregated schools and, in some states, not being allowed to vote. Obviously, it follows that black people commonly lived in sub-standard housing, attended sub-standard schools, and were able to achieve only a sub-standard slice of the

American dream. Of course, they were over-represented among the so-called urban poor, and were reported to get a disproportionate amount of public welfare money (which never was the case). Still, the white establishment provided AFDC – Aid to Families with Dependent Children – which was essentially a payment to women with children under the age of 18. But the white establishment planted a destructive seed in this act of generosity – women who had a man in the home were not eligible to receive AFDC! This had at least four profoundly negative results:

First, it led to the unraveling of the black family.
Second, it rewarded women for having babies outside marriage (more babies, more aid).
Third, it created several generations of children who grew up poor and without fathers.
Fourth, it created negative role imagery for black men whose presence at home compromised the family's welfare payment.

These four negative forces have resulted in two remarkable current statistics: One American black man in three will spend time in prison; and although blacks are only one-third of the teenage population, black girls have two-thirds of the abortions in that age group.

Of course, these numbers mean that black men make up a disproportionately large percentage of the prison population, and black criminality is a major social problem. By the way, most crime by black men is committed against other black people, further compromising the stability of the black community and limiting economic opportunity.

Many researchers have observed that there is less crime in stable neighborhoods in which residents own their homes. However, banks had for years "red-lined" minority neighborhoods, restricting loans for home mortgages. Under the leadership of President Jimmy Carter, the Community Reinvestment Act of 1977 was passed to get banks to make more home loans to minorities on the premise that it is the ability to repay loans rather than ethnicity that is the important issue. Thus, the sub-prime mortgage was born. Then in 1993, President Bill Clinton asked for a revision of that Act to get banks to participate more fully to enable minority home ownership. This is where, some say, that the good idea went bad.

By 2000, pressure to strengthen the Act made it possible to lower lending standards – or necessary, so apologists allege. But the facts are that unscrupulous mortgage brokers and some banks set out to sell sub-prime mortgages to anyone who would accept them, often falsifying financial information on application forms. Sales persons were offered bonuses for generating sub-prime loans, and in many documented cases, brokers knew they were making loans to people who could not possibly repay them. Banks put together collections of these mortgages and sold them on to other banks at a discount. That allowed buying banks to prove they were serving the minority market. It seemed such a profitable deal that even international banks wanted some of the action as many of those loan packages were sold and resold many times.

Then the defaults began, and foreclosures, and banks began to run out of money to lend to businesses (including home builders). The building boom in America stopped and the price of homes began to fall, leaving many people – even those who did not get sub-prime mortgages -- finding themselves owing more than their houses were worth. That led even more people to default on their mortgage payments. The "Crisis" was launched as so many of those mortgages that banks bought proved to be worthless. Many people lost their savings, their homes, and for increasing numbers of others, their jobs. All around the world!

3. SIGNS OF THE TIMES

Along the way, Americans have learned recently that a nice old man named Bernard Madoff swindled investors out of an estimated 50 billion dollars – perhaps the most clever criminal of all time. Previously, there was the case of Enron, which devastated the economic lives of 21,000 employees in 40 countries and put a number of executives in prison. WorldCom executive Bernard Ebbers got a 25-year prison sentence for an 11 billion dollar swindle that bankrupted his company. Even Martha Stewart, America's favorite homemaker, publisher, and TV celebrity spent 5 months in jail and another 5 months confined to her home -- for insider trading and lying to investigators. Most amazingly, the huge insurance company, AIG, racked-up the largest ever quarterly loss at the end of 2008 – 65 billion dollars -- and still wanted to reward its executives with multi-million-dollar bonuses!

There have always been swindlers and crooks, but it seems that in the U.S. over the past decade there has been an air of entitlement that encouraged powerful institutions and their executives to take advantage of a system that was not well regulated. Many think the regulators were essentially co-conspirators, given their casual oversight of the public's interests.

In my mind, this makes a point that came clear to me in years of civil rights work, paraphrasing something Jesus was reported to have said: What you do to the least of these is being done to the many – but the many are too busy being caught up in their racism and relatively advantageous position to notice! Well, maybe now the many will see. The sub-prime loans, designed to support minority home ownership for qualified borrowers, made black and Hispanic communities the first targets of opportunity in this enormous miscarriage of economic opportunity. And the many have been victimized, too! Even in Iceland and Latvia.

You might wonder why I'm talking about America to a Romanian audience. It's because I don't know enough about Romania. I suppose I could speak of misdirection of resources in Lithuania, but then you would think I'm speaking about Romania since there are said to be so many similarities among the former Soviet republics. When I asked a member of the Lithuanian parliament what was going among the delegates, he said, "Do you remember the Borgia family of Italy, poisoning each other? These guys are scrapping among themselves to settle feuds a decade old, and for public assets that haven't already been stolen!"

But from my perspective, as a management and human resource consultant, the news isn't all bad. Now that companies and governments are in serious financial trouble, they might at last turn to their employees for help. Maybe I'm being optimistic, but I know that for the last decade, managers in this part of the world have had no interest in the participative approach to productivity. Evidence of this is seen/heard when I ask people if they like their jobs, admire their managers, look forward to going to work every morning, and they laugh. So then I follow with the question, Do you know *anyone* who feels that way about their jobs? More laughter.

Of course, that means they aren't involved with their jobs or their managers or their organizations. The reason is that managers are invested in authority, in personal power, and in the social distance they believe must be maintained between managers and the peons. These attitudes are destructive to organizational effectiveness, but they are so pervasive, people hardly notice them. They just respond – by withholding their gifts of extra effort and care, and their insights into how to get work done better, faster, and cheaper.

And that raises the issue of what impact this crisis is going to have on the work we do and the jobs we have or hope to get? What does it mean for university and college students, and for those of us who teach them? Are we giving them what they need to know and know how to do? Which of our disciplines is nearly or already obsolete? And what major revisions in curriculum offerings will we need to make to stay relevant to the career and life prospects of our students?

Maybe if we use some of these turbulent days to focus on what our students and societies need, and think less about our personal problems and inconveniences, we can catch a glimpse of the future that's upon us. Maybe then we can turn the adversity of the moment into creative responses. Maybe if nothing else I've said is true, you can count on this: More of the same old stuff will not result in different outcomes. We will continue to create again what we know, what we've done, and the dysfunctional results we have produced.

This use of the editorial "we" may be unfair, as some among us may not be compulsive consumers, driven to disadvantage others by our greed, distorting all the rules that should shape our behavior, thus allowing us to avoid taxes and to take ethical shortcuts. But if you look at the genesis of the current crisis and the questionable behaviors that were rewarded handsomely, and the fact that most of us didn't raise our voices in protest, maybe we all are just a little bit responsible. Remember, what we tolerate, we validate; what we accept must be okay.

3. CONCLUSIONS

The past two decades have brought the opportunity for democracy to this part of the world. I don't refer to the American-style democracy that has produced such an economic embarrassment. Instead, I refer to the freedom to speak out, to organize protests with others who have the same concerns, and to make an effort to make a difference. If you and the people you know can catch that vision and act on it, maybe you will have found the gift that must be buried somewhere in this global economic crisis.

REFERENCES

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