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Brazilian supermodel's wake-up call to U.S. 'Pay me in euros' underlines ills of our 'happy conspiracy' of greed

 By [Paul B. Farrell](#), MarketWatch

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ARROYO GRANDE, Calif. (MarketWatch) -- The "American Gangster" movie has a great line that tells me why the bull market's peaking: "Getting out at the top ain't the same as quitting," a friend advises the drug lord at the heart of the film. But he can't hear. Greed is too good. Like so many leaders "more is never enough."

It's the same with markets. They never "top" naturally. Nobody wants to be a "quitter." Investors keep pushing up, up way over the top. Greed drives cycles. Bubbles pop. Crashes happen. We get warnings years in advance. So what? Greed blinds us.



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More is never enough for what Vanguard founder Jack Bogle calls the "happy conspiracy." But who's "happy?" And who's a "conspirator?" Let's go back a few years.

A former Federal Reserve governor, Ed Gramlich, started warning Alan Greenspan as early as 2000 about the coming subprime problems. The New York Times' Paul Krugman says Gramlich wrote that: "Increased subprime lending has been associated with high levels of delinquencies, foreclosure and, in some cases, abusive lending practices." But he was ignored.

Why can't the best and the brightest hear early warnings? As recently as August both Fed Chairman Ben Bernanke and Treasury Secretary Hank Paulson were saying the subprime problem was "contained." Now it's an unavoidable "contagion" rippling through the economy and markets, raising fears of a global recession. Billions of write-offs. Top leaders fired.

Were all those Wall Street geniuses blind to the collapse ahead? Or just enjoying the perks inside the "happy conspiracy?"

No matter what, we're all sinking, and the bottom's a long way down. Pimco's chief investment officer Bill Gross expects mortgage defaults to rise well into 2008: "There are \$1 trillion worth of subprimes" and they're "basically garbage loans ... we've only begun to see the pain." So fasten your seat belts, this roller coaster's accelerating.

And it'll ripple around the globe: The dollar's already lost 34% of its value since 2001. Can it get worse? Yes says Giselle Bundchen, a \$30 million-a-year Brazilian supermodel who is demanding Pantene, an American cosmetic company, pay her in euros not dollars.

Why? As Bloomberg News put it, the dollar can "only depreciate because Americans ... are living beyond their

means." What irony, a model delivers an economic policy warning with more punch than all the currency threats from Iran, Venezuela and China. Gisele's lucky. She's bailing out of the "happy conspiracy." You can't.

How bad? In his recent monthly Insight report, economist Gary Shilling says: "Housing is not the only area of heavy risk-taking, but just the most vulnerable. A 'Great Disconnect' between the real economy and the speculative financial world has existed since the late 1990s ... a bear market and recession lie ahead."

Bogle's answers

With so much going wrong in the world today, a still small voice quietly nudged me back to Jack Bogle's powerful book, "The Battle for the Soul of Capitalism," for answers. He says a "pathological mutation" has taken over America's capitalism, shifting power and money away from the masses to a powerful elite:

"Over the past century, a gradual move from owners' capitalism -- providing the lion's share of the rewards of investment to those who put up the money and risk their own capital -- has culminated in an extreme version of managers' capitalism -- providing vastly disproportionate rewards to those whom we have trusted to manage our enterprises in the interest of their owners."

Proof: Executive compensation has risen rapidly from 42 times the average worker's income in 1980 to over 530 times in 2000, while workers' income has declined in constant dollars.

Bogle paints an eerie reminder of America nearing a bull peak, again, very similar to the manic days before the 2000 market crash, before that 2000-2002 bear/recession. We've forgotten those history lessons. Bogle captures the blind arrogance we're repeating:

"The spirit of the coming age was summarized in a 1997 article entitled, of all things, 'The Long Boom.' Wired magazine, the hottest publication geared to the 'new economy' fantasy, headlined its lead story: 'We're Facing Twenty-Five Years of Prosperity, Freedom, and a Better Environment for the Whole World ...' The readers of Wired must have salivated as they anticipated, in the article's words, 'the beginning of a global boom never experienced before.'"

Driven by greed

But Bogle no longer sees Adam Smith's "invisible hand" driving American Capitalism in a healthy, positive direction. Instead, he sees a "happy conspiracy" of myopic leaders driven by self-interested greed repeating the same old mistakes:

"The financial markets of the late 1990s seemed to accept this Wired thesis; if not entirely, surely in its spirit and direction. From the start of 1997 to its high point in March 2000, the stock market doubled, valued in stratospheric multiples of earnings, dividends and book values literally never seen before. The Great Bull Market fed on itself, a mania driven by an idea that we were in a New Era."

The "New Era" failed, it was just good old-fashioned greed repackaged by (and for) an elite "happy conspiracy." Bogle continues: "Bolstered by that euphoria, our system of capitalism -- as all systems sometimes do -- experienced a profound failure, with a whole variety of root causes, each interacting and reinforcing the other:

- the notion that our corporations were trees that could grow not only to the sky but beyond
- the rise of the imperial chief executive officer
- the legerdemain of financial engineering in corporate reporting
- the failure of our gatekeepers -- the auditors, regulators, legislators, investment bankers and boards of

directors -- who forgot to whom they owed their loyalty

- the change in our financial institutions from being stock owners to being stock traders
- the promotional hyperbole of Wall Street
- the willingness of professional securities analysts to put aside their skepticism
- the frenzied excitement of the media
- the eager members of the investing public, reveling in the easy wealth that seemed like a cornucopia

"It was this happy conspiracy among virtually all interested parts that drove the business standards down even as it drove stock prices up. The victory of investors, insiders, and investment operators during the Great Bull Market had a thousand fathers."

Yes, yes, you're also in a "happy conspiracy," an "eager member!" You went along with their game. Oh, you can wag your finger at Ben, Hank, Alan and their lot as the "happiest co-conspirators," blame them for creating top-down problems like the "American Gangster."

But you let yourself get snookered. Go ahead, blame "them" to exonerate yourself. Still, we're stuck cleaning up their mess, because it's our mess too, just like we had to suffer through the 2000-2002 bear/recession. With no big severance packages. No big book deals like the insiders. Nor, like Gisele, a chance to demand payment in euros.

So we rationalize our naiveté; "ain't no quitter," right? Let's start a new "unhappy conspiracy!" ■

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