



# Random Thoughts

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## The American Comedy

Georgia threw out its Democratic Governor and it's Democratic Senator. This seems to have taken the Democratic Party by surprise. I don't know why. Anyone in Georgia could have told you it was very likely. It was also unnecessary.

A couple of years ago the two of them made one of those political mistakes that makes you wonder just how out of touch politicians can get. The issue was the state flag.

A poll of Georgians taken at the time showed that the majority was in favor of changing the flag to remove the Confederate battle emblem. It also showed that it was close and it could easily turn into a nasty fight. So the Governor and his cronies got together and forced a new flag design through the legislature before anyone had a chance to even comment on it. I'm sure they thought that everyone would have forgotten about it by the next election.

Well, we didn't. Instead a lot of normally neutral people, like me, took extreme umbrage at the underhanded way it was done and vowed to never vote for anyone involved again. So instead of supporting Governor Barnes, who has done a pretty good job, I voted against him.

I believe the first job of an elected official is to represent the people who elected him. That doesn't mean blindly following every whim of the mob but it does mean giving people a chance to be heard. If the debate over the flag had been played out in public, I think we would still have a new flag and, very probably, a Democratic Governor and a Democratic Senator.

The new Governor ran on a promise to hold a referendum on the state flag. Now we are going to have the flag debate and it will be a mess. Where most people didn't really care two years ago, public opinion has become very polarized in the course of the last year. So it will be an ugly and totally unnecessary fight.

By the way, the new flag design was rated "Worst in the USA" by some, I've forgotten who, design group. I agree!

Of course on the plus side, we now have the first Republican governor since Reconstruction and the Republican Party has a decent chance of taking control of the state.

## Electronic Voting

This year Georgia was the only state to both have the new electronic voting machines and to use the same equipment throughout the state. It went very well throughout the state with almost no problems reported. Pretty amazing considering the number of people who had to be trained and the sheer volume of equipment deployed.

Ellijay had to cope with both the new voting machines and a complete rework of the voting precincts. They did it right with public meetings to demonstrate the new machines and sample ballot layouts in the local paper. What they didn't do was print maps to show you the location of the new polling places. We managed to find our new polling site, not without some problems, despite the pouring rain.

People didn't seem to be having any problems using the new system. It was taking most people about 2 to 3 minutes to vote. Mostly because of the time needed to read the referendums. There was one casualty to technology: the secret ballot.

The touch screens were tilted at an angle that made it easy to read them. It was especially easy to read the final summary screen. The person handing out the "ballot" cards could easily have kept track of how people were voting. Hopefully this problem will be fixed in future elections.

## **Gun Control and the Election**

Did you notice all the Democratic ads attacking the Republicans stance on gun control? No of course not since there simple weren't any. After the last presidential election, they discovered that their anti gun stance had probably cost them the election. Not only that but recent opinion polls showed that an anti gun stance would not gain them any votes this time around while it would definitely cost votes.

Faced with the possibility of losing votes, all those deeply felt convictions against guns and the violence they cause simply faded away. I suppose it's nice to have so adaptable a set of convictions.

## **Interest Rates: The Dark Side of the Force**

Interest rates are at their lowest point in decades. This has to be a good thing. Right? Maybe not. Low interest rates are nice if you're buying a house or a car. Supposedly they are good for the economy because the money saved on mortgages and car loans will be spent for goods and services. That means more money to help fuel production, which means more jobs, which means more money spent for goods and services which... Well you get the idea. So what's the down side?

The down side is that its not just mortgages and car loans interest that's dropped like a rock. It's interest paid on bonds of all types, checking accounts, CDs and saving accounts. All that money wasn't just going to some mystic account in the sky. Most of it was being paid to a lot of people in a lot of different ways.

Have you looked at the interest from your checking accounts lately? You probably haven't noticed it since most banks are paying somewhere around 1%. That's a lot of income lost and it offsets some of those gains. True for any individual it probably looks pretty trivial but taken as a whole it's a lot of money.

Then there are all those people, like me, who live off interest from government bonds. A lot of people on fixed incomes depend on interest payments. In the last couple of years the yield on bonds has fallen from around 5-6% to more like 2-3%. Again that's lots of money.

Oh, before I forget, remember all those pension plans that got creamed by the stock market bubble? Well guess who the biggest investor in bonds is? Now they are seeing even the "safe" income vanish.

Still on the whole you'd think that things would come out in the wash. Some people make less while others have more money to spend. Governments collect fewer taxes from the interest payments but they also pay less for the money they borrow. Where's the real problem?

It's something called "Capital" or to be more precise the lack there of. Japan is in a 20-year recession because the banks in Japan have so many bad loans they cannot finance new companies. Existing companies cannot easily raise money for new development so they can't grow. It's all because of a shortage of "Capital."

When you want to start a new company or expand an existing one, you need money. You get it by selling stock in your company or, more commonly, by borrowing. But, you say, low interest rates make it easier for companies to borrow. True in the short run. In the long run a couple of bad things happen.

First, people who used to live off the interest from their money start living off the principle. Principle that was a major source of those loans companies need. Over time the amount of money available to be loaned shrinks. So even with low rates the capital needed to fund economic growth becomes hard to get.

Second, as rates fall people become less willing to take risks. When you are making 7% on a loan you are willing to accept the possibility of losses on some loans because income from others will make it up. When you're only making 1.2% on a loan your tolerance for risk gets a lot lower! Again it becomes harder for companies to get money to expand and *very hard* to get money for new ventures.

Just one example: It was the lack of capital that made it so hard for the country to pull out of the Great Depression.

Unchecked extremely low interest rates can and will slowly wind down our economy. It used to be a slow thing that could take years. In the modern world who knows how fast it could be. The next couple of years are going to be very interesting!

## Economic Indicators

Boy what a mess! Housing starts are way down, a bad thing, stock prices are up, a good thing, oil prices are down, a good thing but highly subject to change, luxury home prices are dropping, a bad thing because they usually lead to more modest home prices falling, middle income jobs are being lost at an alarming rate, a very bad thing since they are hard to replace, finally it looks like holiday sales may be off 6 or 7 % from last year.

The rest of the world is just as confusing. Germany seems headed for a serious meltdown due to falling production and increasing social program costs. Japan stubbornly refuses to admit it has to do something about all its bad bank loans. The Japanese banks are afraid to loan money to anyone which is strangling any hope of industrial growth.

The bottom line is that for the first time in years I can't formulate an opinion about whether things are going to get better or worse. I think that's a first!

## Enron

Much to my delight it looks like the Enron execs weren't quite as smart as they thought. There's a real good chance of serious criminal charges being filed against some of them. We might even get a conviction or two. Pity is the people who made a lot of the really scummy deals possible, the bankers, will probably get away untouched. I've been following the investigations and I just can't believe the extent to which some of the banks bent over backwards to help Enron avoid reporting it's real financial state.

Our whole economy is based on a set of checks and balances, some legal some practical, and it only works when they work. Hum...sounds like a good topic for a long article.

## WorldCom

As I expected the financial irregularities at WorldCom are much worse than people first thought. There's not a single large company in America that doesn't have its share of problems. Normally they don't affect the operation of the company in any serious way and they are found and fixed quietly. But place one of these companies under a microscope and things would look pretty bad. In WorldCom's case they look real bad.

So far all the problems seem to have occurred after the company's stock tanked. In stark contrast to Enron and Global Crossing, who seem to have built their companies up fraudulently, to date WorldCom's problems were caused by trying to keep the company going in the face of horrible market conditions.

## AT&T

The good news is that the company may have dodged bankruptcy by selling off its cable division. Now it has to worry about the SEC inquiry into whether it conspired with Citibank to inflate its stock prices by getting Citibank controlled stock analysts to issue overly favorable reports on the company.

There is a growing scandal around the way stock analysts working for firms owned by some of the largest banks seem to have put on rose colored glasses when ever the companies they were rating were bank customers. This is not as trivial as it seems. A lot of blame for all the money people lost in the market bubble has to rest with the constant stream of optimistic analyst reports on companies whose stock was already priced at astronomical multiples.

It will be fun to see how this plays out. It won't get the kind of coverage Enron and WorldCom have gotten simple because too many banks with real political pull are involved. Not to mention too many politicians on both sides of the aisle.

