
The Idle Speculator™

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Gardner versus Gekko

It's unusual for us to offer commentaries on popular films, but the publicity vibe surrounding Will Smith's new movie, 'The Pursuit of Happyness', has led us to speculate on whether popular conceptions of finance and investment have changed significantly in the 20 years since the release of 'Wall Street', and how such changes might eventually be reflected in domestic U.S. politics.

Will Smith, Classical Liberal

'The Pursuit of Happyness' is based on the inspiring autobiography of Chris Gardner who, through courage, determination, and humor, lifted himself and his young son out of poverty and homelessness by becoming a successful stock broker. Today, CNBC is broadcasting excerpts of interviews with both Smith and Gardner, and Smith's comments were especially interesting to me. I'm paraphrasing from memory, but he said, roughly, that the U.S. Constitution does not guarantee happiness, but rather, the *pursuit* of happiness, a standard that places the burden for attaining happiness squarely upon the individual as opposed to the government. This is a solid articulation of classical liberalism, and struck me as a significant break with the Hollywood mainstream (or at least its stereotype). On a related note, it also brought to mind the recent essay "Liberalarians" by Brink Lindsey of the Cato Institute, in which he articulates the thesis that libertarian minded voters, who comprise roughly 13% of the electorate according to Cato researchers, could potentially form a political consensus with Democrats. Such a development would mark a profound shift away from the domestic political arrangements of the last 30 years.

When Greed Wore Suspenders

Let's dig a bit deeper into the contrasts between the two films, and then consider how these may tie into Lindsey's thesis. 'Wall Street' was released in 1987 as the Ivan Boesky-Michael Milken-Drexel Lambert era was nearing its apex. We won't delve into its historical details, other than to remark that it was a fascinating episode in capital markets history, and one that provides ample raw material for studying the risks and rewards of institutional innovation. The villain of 'Wall Street' was the wealthy and powerful investment banker, Gordon Gekko (Michael Douglas). At one point in the film, Gekko makes a rather good speech on corporate governance to fellow shareholders of a fictional public company, Teldar Paper:

Today, management has no stake in the company! All together, these men sitting up here own less than three percent of the company...You own the company. That's right, you, the stockholder. And you are all being royally screwed over by these, these bureaucrats, with their luncheons, their hunting and fishing trips, their corporate jets and golden parachutes...Teldar Paper has 33 different vice presidents each earning over 200 thousand dollars a year. Now, I have spent the last two months analyzing what all these guys do, and I still can't figure it out. One thing I do know is that our paper company lost 110 million dollars last year, and I'll bet that half of that was spent in all the paperwork going back and forth between all these vice presidents... (IMBD.com, "Wall Street")

These sentiments still aptly describe the agency costs incurred by shareholders of some public companies. The basic moral tale of the film, however, was that real power in the investment industry could only be had by those who were insatiably greedy, callous, and lawless, and that their machinations caused more social harm than good. At the time, it was probably a reasonable caricature of popular conceptions about the industry.

Members Only No More!

In the trailers for 'The Pursuit of Happiness' though, we see a very different model, where the investment industry provides compelling opportunities to anyone courageous and determined enough (and judging by

the trailer, charismatic enough) to take the leap, *even for the most marginalized members of society*. A scene from the trailer shows a disheveled Will Smith, in an undershirt and a Members Only™ jacket – like Gordon Gekko, another infamous icon of the 1980s – being interviewed *and hired* by old, suit-clad white guys in a glass-walled conference room. *This scene could not be any further removed from the spirit of 'Wall Street'*. And yet, as the story is an autobiographical one, we can assume that something like this indeed happened -- someone decided to take a risk on Mr. Gardner, and the film's trailer implies that it paid off handsomely for all involved.

Investment Is About Risk, then Reward

In a very important sense, the story of Chris Gardner is what finance and investment are all about. A well functioning financial system makes it possible for members of society to take more risks at the margin. And if enough of those risks pay off, we can assume that incremental benefits also accrue to society in general. As with all things in the temporal world, there are certainly tradeoffs that have accompanied the evolution of modern financial systems and market economies. But at this point in history, very few people would argue against the proposition that the benefits have far outweighed the costs. And although this fact is not articulated often enough, it is important to keep it in mind: without the private and public rewards that accrue from investment and economic activity, few of the things that we take for granted would be possible.

Political Possibilities

This brings us back to Lindsey's thesis, encapsulated in the following excerpt:

Today's ideological turmoil...has created an opening for ideological renewal...A refashioned liberalism that incorporated key libertarian concerns and insights could make possible a truly progressive politics...that joins together under one banner the causes of both cultural and economic progress...many of the great libertarian breakthroughs...were championed by the political left...[and] it has become increasingly clear that capitalism's relentless dynamism and wealth-creation...have been pushing U.S. society in a decidedly progressive direction. (Lindsey, 2006)

Lindsey points to a few of the Democrats' recent political successes as evidence that a nascent classical liberalism might be taking root in the party. The strength of this impulse will only be known with time, but for the moment, we can view Will Smith's comments on the pursuit of happiness as a single piece of anecdotal evidence that classical liberalism is staging a comeback of sorts.

In the meantime, although the primary direction of our domestic politics is still uncertain, the space of possibilities seems pretty clear. In our view, an optimal outcome would involve fusion, of the kind outlined by Lindsey, taking hold in *both* parties, driven by an emerging consensus between the various champions of individual liberty, economic dynamism, and social well-being. This kind of development might even encourage a broader and more inclusive philosophical discourse about the appropriate role of governments in relation to cultures and political economies. A suboptimal outcome would be one in which traditional impulses and narrow constituencies – we might tag them 'cultural interventionism' on the right and 'economic interventionism' on the left – are as powerful as the voices of 'dynamic progressivism' in either party. And finally, a worst case outcome (to which we attach a negligible probability at the moment) would be one in which various compromises undermine both the cultural and the economic dynamism of this country, setting it firmly on the road to Superpower Past Tense.

Sources

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