Marketplace
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TAKING STOCK

Taking Stock: Get banks smaller

There are a lot of reasons why our economy is in a sorry state. Among them, the way we've done business and how banks have been structured. Kai Ryssdal speaks with management expert Charles Handy about how we got in this current economic mess.

London Business School founder and Claremont Graduate University's Drucker School of Business Professor, Charles Handy. (Liz Handy)

TEXT OF INTERVIEW

KAI RYSSDAL: A lot of things got this economy to where it is. Greed or, more politely, the desire to make more money and have more things. Also, a lack of transparency, a lack of understanding about how all those newfangled financial instruments were going to work. Or not going to work. But on top of that there was the way we did business and how some of the players, like the banks, were and still are structured. We're going to continue today with Taking Stock, our series of occasional conversations with people who can give us the longer view of our economic situation. Management consultant Charles Handy makes a specialty of organizational behavior. And when we spoke, I asked him why he thinks we wound up in this mess.

CHARLES HANDY: I think we got carried away, you know, at least the bankers did mainly. After all, for many, many centuries, making money out of money has been regarded as rather a bad thing. In fact, it used to be called "usury" -- it still is in the Muslim world. And that's what the banks started doing. They forgot what their proper job was, in my view, which was to take money from some people who had some to spare and to pass it on to people who could use it usefully and profitably. And they started inventing nice little products that they came up with, which basically were a way of making money out of money.

RYSSDAL: But from purely a business proposition, if you can't make money giving a loan, why do it at all?

HANDY: That's right, but you must make sure that you don't exceed the money that you've been given by the people who are saving it. These people went wild, actually. They went way in excess of the ratios that normally were deemed respectable -- ratios of how much money they were giving out to the assets that they were looking after. They were very keen about selling things. They weren't too keen about managing the risk, because they thought that prices would forever go up. They got carried away. It's understandable. They were young, they were sitting in front of computers, they weren't out in the real world. They were selling, you know, interesting derivative products, which were ultimately based on house prices. But none of those people selling those things had ever visited the houses, which were the basis of their assets price, you know.

RYSSDAL: It seems to me the solution, when we have one of these crises, is always a variation on what I suppose you could call the "big three," right. One is increased transparency, the other is increased accountability, and then some kind of regulation. But we've tried all of those things in crises past, so what's the answer this time?

HANDY: Get them smaller.

RYSSDAL: Get the banks smaller?

HANDY: Yeah. Get the banks smaller. I'm actually sure. Markets work well when there are a lot of players, and if one falls out, the whole system doesn't crash. When we create organizations that, in the words of some people, are too big to fail, what we really mean is we can't allow them to fail. So, I really think that we've allowed the banks to get too big. So I think the answer is basically to de-structure them. I think we'll see that happening. I think we'll see Citigroup splitting itself up into much smaller kinds of entities. I also think we really should stop everybody putting everything in one basket. I think investment banking should be separated out from retail banking. They contaminate each other.

RYSSDAL: Does the government come in and regulate them smaller? Or do we wait for the market, as is happening it seems in Citigroup's case, to make them small?

HANDY: Well, it'd be awful nice if the market happens, and did it, because I really don't want government poking its nose in as much as it seems to want to. But I think in the end the government has to act if the banks don't do it.

RYSSDAL: What about the issue, though, of shared blame? Because, while certainly Wall Street and Canary Wharf had their share of responsibility, it's not just them. It's the mortgage brokers. It's appraisers who appraised houses at values too high. But also it's us, right? I mean, we all spent too much money, because we could.

HANDY: Well, absolutely. We got carried away. I -- can I read you a quote that Adam Smith made 250 years ago, which will always please me? He said, "A profitably speculation is presented as a public good because growth will stimulate demand and everywhere diffuse comfort and improvement. No patriot or man of feeling could therefore oppose it. But the nature of this growth, in opposition, for example, to older ideas such as cultivation, is that it is at once undirected and infinitely self-generating in the endless demand for all the useless things in the world."

RYSSDAL: So now what then? I mean, if Adam Smith -- who wrote "The Wealth of Nations" that we all know about -- if he's right, and we got it wrong 250 years later, now what do we do?

HANDY: Well, I think governments are faced with a difficult problem. They are trying to get people to spend. But it does seem a rather un-Adam Smith idea to get people to go out shopping in order to get the economy going again. More "useless things," in other words. But in order to get that happening, they have reduced the base rate from the Federal Reserve or the Bank of England, in order to get people finding it easier to borrow. But actually there are more savers than borrowers in society. And so, of course, now the savers are not going to save because there's no incentive to it. So, I'm not sure that the solution is going to be easy to get by, and I think it'll take about three years for things to bottom out. But there may be some good news in all of that. I mean we may get back to a saner kind of world -- what Adam Smith called "cultivation" or "civilization" -- where we don't all sort of spend our life trying to make money, to buy things we don't really need to impress the neighbors, and so on. Where we actually do work -- not 60 hours a week, but 40 hours a week. Where we actually do take holidays. Where we actually get to know our kids again. Where it actually becomes smart to have a tiny car, to walk and bicycle and these sorts of things. And we may find we enjoy it actually just as much as the hectic pace that we've seen in recent years. I've often said that capitalism, particularly in America, is a very exhausting business. It tires people out.

RYSSDAL: Charles Handy, thank you very much for your time.

HANDY: Thank you very much. It was wonderful to talk to you.

COMMENTS **Comment | Refresh**

By Alan Murdock
From CA, 01/12/2009

"Get them smaller" Bravo, sir, I wanted to stand up and cheer. The rest is very good too. Kai could we please have a bit more of Mr. Handy?

By Franklin Minerva
From New York, NY, 01/10/2009

Driving back home to New York City across the dormant fields of Pennsylvania Thursday afternoon, Charles Handyâ€™s interview came across as a burst of light just as the sun was setting. I had to cheer out loud. His was some of the most incisive commentary I have heard about the problems with our current economic model. There has been so much analysis focusing on financial system abuse. Yet Handyâ€™s simple â€œget them [the banks] smaller,â€ nails it like no comment I have heard before. As important, few financially sophisticated commentators have looked deeper as Handy does to try to explain what got us here. As long as money and the things it can buy are elevated as the only true religion of the â€œcivilizedâ€ world, that religion will be accompanied by Adam Smithâ€™s â€œspeculationâ€ and â€œendless demand for all the useless things in the world." Our priorities and hence our incentives are wrong. And we canâ€™t rely on traditional economics and economists to get us where we want to be. We need radical action that is so much beyond a fiscal stimulus or loose monetary policy. We donâ€™t want to revive the economy so it can keep doing what it was doing before. We donâ€™t want to be seduced by glittering products that promise to change our lives but leave us unsatisfied and wanting an elusive something more. We want businesses and products that matter. We want workers that take pride in what they do and managers who are rewarded for their integrity. And we want to be paid for what we contribute to society. Letâ€™s have a true service economy not one built on consumption. Handy captures that so well by reminding us of the wonderment of 40 hour work weeks, holidays, actually getting to know our kids again and the intelligence of small cars, walking and bicycling. A good related book is Deep Economy: the Wealth of Communities and the Durable Future by Bill McKibben. President-elect Obama--listen to wise men like Charles Handy and Bill McKibben. If you can even begin to set us on such a new course over the next eight years, you will fulfill your destiny and be the greatest president America has known.

By Karen Lynn
From Memphis, TN, 01/09/2009

I recommend the book "Predictably Irrational". While we will all learn from this past period of profligate spending, we are humans and very predictable in our desire to outshine our neighbors.
Karen

By Kevin Ross
From Cincinnati, OH, 01/09/2009

What a brilliant man, and such intelligent observations concerning what all of us must ultimately do.

By Fred Wiske
From East Troy, WI, 01/09/2009

Charles Handy is a very wise man. He is very insightful and cogent in his remarks.
But I must disagree with Ed Richardson
from Delaware, OH, on his comments about Realtors being responsible in the mortgage debacle. Yes, we do cash our commission checks (I am a Realtor) but our primary function is to facilitate the sale (& purchase) of real estate not to monitor/control the source of financing for that transaction.

By Jason McGaw
From Seattle, WA, 01/09/2009

If we look over the past we see there have always been people doing anything they can to make money and gain power regardless of whether it benefits others or not.

At some point we must accept that this is the normal way of the world and prepare for it.

Smaller banks? Yes.

Government oversight? Yes.

But also acknowledge that no matter how diligent we are we will still be caught off guard, duped and corrupted.

Therefore the final measure that must always be in place is a security net that will protect people during the down turns including adequate health coverage, unemployment and housing.

ɹl Amundson
Golden Valley, MN, 01/09/2009

I often hear people analyzing our economic mess lament that "we all got carried away." Well, misery loves company, but there are also many people who made hard and disciplined decisions to live within their means. Are they also supposed to accept blame for being part of the problem? In fact, are they not now suffering for the excesses of those who exceeded their means?

By S,J. Phred
01/09/2009

While I realize this interview was designed to be philosophical in nature, I wish there had been a reference to the S&L crisis. We Americans as a nation have already seen what happens when small banks are allowed to "go big".

How about a discussion about WHY we didn't learn that painful lesson?

By David Rigby
From Winston-Salem, NC, 01/09/2009

"Get them smaller" is great advice! But the bureaucrats don't have a clue.

By Ed Richardson
From Delaware, OH, 01/08/2009

Why did Kai Ryssdahl fail to mention the Realtors in his list of those who profitted from the sale of real estate financed with mortgages that were unworkable at inception. Most of these transactions involved a Realtor cashing a commission check. Ryssdall mentioned the mortgage broker who cashed a check, the Wall Street (or Canary Wharf) executive who profitted, the appraisers who profitted, but the Realtors involved in these deals got a free pass? I realize the the NAR underwrites NPR programming and is a more powerful lobby than the NRA, but that shouldn't buy them a free pass from all responsiblity.

By Kiran Mova
From Wayland, MA, 01/08/2009

Finally an view that might help us get out of the crisis. When Mr. Handy replied saying "Get them smaller", he nailed it.

It reminded me of "tower of babel".

By Aaron Wilson
From Kalamazoo, MI, 01/08/2009

This is the first time I'd heard Mr. Handy, and instantly he seemed to be a very wise man. It was refreshing to hear a very well accomplished financial manager speak of humanity, simplicity, and how insane it is to live to make money. Mr. Handy makes a lot sense on a very core-basic level in a very inhumane, hectic, and troubled world.

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By Maggie Williams
From Bremerton, WA, 01/08/2009

At last! A high priest for my church!

By Russell Hammond
From Hollywood, CA, 01/08/2009

I've always been at odds with buying crap we don't need just to keep our economy afloat. We look down our noses at countries that barely survive with subsistence farming, etc. when, in fact, America would collapse if faced with that system.

By Caluha Barnes
From Atlanta, GA, 01/08/2009

It was refreshing to hear such a renowned business consultant actually say that there is more to business success, personal success and happiness than the perpetual pursuit of ever more money, more stuff, more work, more market share, more!

I agree with Mr. Handy that a business too big to fail should not be permitted to exist. Capitalist practitioners must be as willing to accept loses (up to and including failure) as they are to accept the profits during good times. Ethics, values, conscience and transparency must return to organizations from the top to the bottom across the entire economy. Before the crisis I was not convinced that the average CEO could possibly offer the equivalent value (as represented in the pay disparity) of more than 350 average workers, and I am even less so now.

As someone for whom the value of enough is fundamental, I strongly believe that the United States (and those following our lead) is in such a state of dysfunction because not enough people acknowledge and challenge the perverse incentives of our current system. Raw capitalism is exhausting, unsatisfying, dehumanizing and unsustainable.

I look forwarding to reading â€œMyself and More Important Mattersâ€□ and hearing other great stories on Marketplace.

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stin Peckman

From Roanoke, VA, 01/08/2009

I think many of us are yearning for the sanity that Charles Handy is talking about. So, to fix the economy, we do not need tax cuts so we can spend more; we need to create jobs for the common good, jobs to build the green infrastructure that can help us out of the mess we have put ourselves into.

By Alan Moise
From Atlanta, GA, 01/08/2009

Mr. Hardy is exactly right - we all got carried away...too much leverage (Lenders AND Borrowers to blame) and too much spending on "useless things". I agree that we need to simplify - we would all be happier if we did.

By Elizabeth Chase
From Los Angeles, CA, 01/08/2009

This man was fantastic - finally someone who will say that maybe the solution to this crisis is NOT for consumers (who have been living beyond their means in the first place) to go out and spend more. The solution is for us to see clearly that we need to live below our means and learn to appreciate the pleasures of that.

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