

# The Very Long Run

Evan Miller

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In the short run, economic efficiency means that goods are produced by the firms that can make them the cheapest, and they go to the people who are willing to pay the most. The market satisfies this short run perfectly (provided that deception and government are absent), and there are General Equilibrium Theorems to prove it. If everyone acts in his own self-interest, then supply and demand curves intersect, Dr. Walras's auctioneer names the price, the Invisible Hand matches buyers and sellers, and at the end of the day no one goes home with fewer Utility Points than he showed up with. Non-economic influences be damned.

The theory is not so clean in the long run. In the long run, technology improves efficiency; but no economist can predict advances in technology. There is no set of equations whose solution gives the optimal level of patent protections, or whether a monopoly will make a certain advance in efficiency faster than a competitive market will. Although the mathematics fails to give us precision here, experience tells us that technology has one factor, really: capital. We must judge the market's ability to promote economic development by its demonstrated ability to pool, deploy, and retain capital in the service of efficiency. A few examples from the history of American business will tell us the extent to which non-economic forces have helped or hindered it.

For our purposes, the real story of Robert Keayne is the story of his money. That story is difficult to piece together, since for all his verbosity Keayne achieves little precision in his *Apologia*. In acquiring his 4000 lb. estate, "I have now traded for myself about 40 or 50 years," he writes (82). It is hard to imagine how he simply "forgot" whether a particular decade of his life was spent in trade or out of it. His accounts are equally vague: "Since I came into New England it is well known to some that I brought over with me two or 3000 lb. in good estate of my own..." Now how could a man who kept track of his records in "an inventory book, a receipt book, a day book, a pocket book, two numbers books, three debt books, a farm book, a rent book, two cash containers, and numerous files and boxes of bills and papers" (ix) have a margin of error of 50% in an account of his finances? We might forgive Benjamin Franklin if he said his penny bought him two or three loaves of bread his first day in Philadelphia, but for a money-man to err on the order of a thousand

pounds invites suspicion. Keayne hid most of his wealth from the government, and he seems to be hiding something from his testament. He tells how much money he *didn't* make (“I have not cleared near 100 lb. a year above my expenses since I came hither, which is not 5 lb. percent clear gains”) but never how much he *did*.

His story is inconsistent, and he must have known it. If he made no more than 100 lbs. a year for 18 years, then it is mathematically impossible that he came to America with only two thousands pounds and wrote his will on top of four thousand pounds. It does not add up. On the other hand, if he came over with three thousand pounds, then his return was under 2% per year,<sup>1</sup> a figure he would have happily claimed instead of the “not 5 lb. percent clear gains” that he quotes in the *Apologia*. Something is afoot.

It is likely that Keayne's conscience is reporting that he came to America with two thousand pounds, but he wants us to believe three thousand. (Perhaps to make the latter figure stick in our heads, he writes out all its zeroes, “3000 lb.”, whereas the other figure never gets the honor.) Keayne set up shop in 1635 and must have made a killing, because he was charged with usury in 1639. The trial would haunt him for a long time. More importantly, though, it caused him to move out to the farm, to pull his capital out of trade and put it into livestock. He moved to the farm no later than 1642, because that was the year a certain Mrs. Sherman “insisted that Keayne had stolen her sow” (viii); the accused must have lived in a place with a pigsty. Perhaps upon his move he claimed to be retiring, but the evidence indicates otherwise. Keayne was obsessed with his trial in his *Apologia*; and why would he plan to move to a cold, barely inhabited colony, work for only five years, and retire there? It was society that drove him out to the country prematurely.

Yet some investments must have continued, because he continued to make money while living on the farm. That is the missing ten years in the story of how long he had been trading; he had been full-time for 40 years, and full or part-time 50 years. It is likely that he made “not...near 100 lb. a year” only after he left for the farm in the early 1640s, and that amount was made off of

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<sup>1</sup> Compounded yearly, for a back of the hand calculation.  $(4000/3000)^{1/18} - 1 = .016$

whatever amount was left invested in trade. It is even possible that he made very little money in the 1640s, but he counted that time to cover up his bandit's profits of the 1630s. How much remained invested (or loaned out) after the move? We have two significant clues. First we know it was a minority of his capital, because “most of my estate now lies in my farm, in cattle, houses, and household stuff” (84). And we also know from Bailyn that Keayne “had long ago decided that one-third or thereabouts of all his property would be given as a gift for specific uses to the town and to the commonwealth” (vii). Since no one is expected to sell the farm when the head of family dies, all of the money used to finance Keayne's post-mortem public works probably came from selling out his remaining investment in the merchant business. We have no clearer example of society's values driving capital out of its productive uses, in life and after death.

The harm to economic development was apparent, even before Keayne's demise. His peers had acted “as if no punishment had been sufficient to expiate my offense [of] selling a good bridle for 2 s. that now worse are sold without offense for 3 s., 6 d. nails for 7 d., and 8 d. nails for 10 d. per hundred, which since and to this day are frequently sold by many for a great deal more.” Keayne, presumably a monopolist in his time (else his prices would have ruined him), had sold better and cheaper goods than the “many” who were selling fifteen years after Keayne's trial. His figures here are both more precise and more verifiable than his statements about his personal worth, and thus they are more credible. (Any colonist could verify the market price of 3 s. for a bridle, but woe betide the man who endeavors to makes sense of Keayne's voluminous financial records.) And so the story is clear: without Keayne's expertise and without his capital, Boston prices rose, that is, the merchant industry deteriorated. In a budding colony so thoroughly dependent on imports, the effects must have rippled throughout Massachusetts: poor bridles might delay communication; expensive nails prohibit some people from building a proper fence, the first enforcer of property rights in America. Keayne's withdrawal from the merchant business set back the business by years, and set back the rest of the Boston economy by an untold duration.

But surely, it might be argued, Keayne's example was so long ago that any “lessons” we

may draw are irrelevant. It preceded the emergence of modern firms, modern technology, and modern finance. Perhaps society squeezed the merchant in the 17<sup>th</sup> century, but ought not the current age worry more about mega-corporations, borne of the manufacturing and communication efficiencies in the last two centuries, hampering development by pinching the public?

To answer these questions, we look to Enron, that modern icon of corporate chicanery. Its size did, indeed, allow it to hinder development in palpable ways; look no further than California's flickering lights in 2000. Enron manipulated the energy market, moving energy out, about, and all around to create a shortage that it would immediately cash in on, pulling in millions of dollars a day just by jiggering the numbers, and in the process shutting down businesses all across America's most productive state. Keayne was brought to trial for a profit margin of ten, twenty percent; Enron in comparison pumped up prices ten or twenty-*fold*.

It got away with that price-gouging, but it did not get away with its accounting practices, which make Keayne's books look like Charlie Brown's lemonade stand. In order to post greater and greater profits, Enron hustled assets into Special Purpose Vehicles, used “mark to market” techniques to report the value of items that did not, in fact, have an objective market price, and arranged complex asset swaps to make loans seem like revenue. After the bankruptcy, Enron's executives would be brought to account for these crimes.

And yet what was the crime against economic development? As for the California energy crisis, Enron was merely making the most of a stack of rules; its actions simply proved the need for further *de*-regulation, because Enron would be still too small to manipulate a perfectly competitive market. As for the accounting, the company's executives had indeed focused monomaniacally on stock price, but that is just the amount of money that the company could raise by issuing new shares. At its height Enron was the world's fastest capital-pooling machine, then worth \$70 billion, and it deployed the capital in the ultimate service of efficiency: it created new markets, markets for energy, for commodities, for Internet capacity, and for uncertainty in the weather. Enron did not immediately make money off of the investments, but it was doing or facilitating \$100 billion of

business per year (Lowenstein 169). Apparently the capital from stock issues was not enough; so Enron set up the Raptors, whose “ability to pay Enron depended on Enron's stock remaining strong and even on Enron's stock increasing” (177). In other words, Enron eventually staked its welfare on the goodwill of its real “customers,” the investors, buyers of dreams. As soon as these customers took it into their heads that they had paid too much (“Is Enron Overpriced?”) to men making too much (the directors sold \$1.2 billion in 1999-2001 (177)), the capital dispersed and the lawsuits began. Enron is the modern Robert Keayne.

Both Enron and Keayne tell us that non-economic forces—jealousies, suspicions—drive out capital, whether or not it is organized by a firm. Their examples supply an historical understanding of the long-term market, where previously mathematical theorems had failed us. But we should not yet abandon the search for a general theory, not until we are done examining the remains of Enron. There was a man at Enron who did have a theory of the long-term market, if only we will abandon mathematics in favor of another metaphor. The man's name was Jeffrey Skilling. His insight was to understand the market in the terms of evolution.

A fan of *The Selfish Gene*, a book about the billions of years of amoral competition that brought about such awesome works as you and me, Skilling saw the market as a fight for resources similar to nature's, a fight in which only the most fit would survive. At Enron, he made sure of it, instituting a program to eliminate the least-fit decile of Enron's workforce every year. His interest in evolution was not merely scientific; there is a very personal side to Skilling's fascination with evolution, a sort of death-instinct apparent in his behavior. On occasion, he took his friends and clients out on extreme adventures, ones in which split-second impulses might save or doom a life. No one died on these trips, but they wore home bruises and stitches, the badges of a courage with no cause except sheer, weightless delight in having tussled with and evaded death.

The theory of the market breaks down in the long run because in the long run, to quote John Maynard Keynes, “we are all dead.” The market is predicated on self-interest, individuals acting for continuous gain; but what does self-interest mean to a man approaching the fearsome

singularity? So faced, most men sell out their gains and spend it like they had always been meaning to, to finish out the story of the life they had meant to live. Carnegie gave it away, Hearst built The Ranch. Most capitalists work until they see gray hairs, and then start playing with their fortune. But Jeffrey Skilling was onto an integrated equilibrium, where work and leisure, life and death, came together: an intellectual embrace of the process of life, death, and new life—evolution—and an animal delight in physical risk and fiscal gambles. Summon one's primordial fighting instinct, reconcile oneself to demise early and often, and death is perfectly compatible with the market. If a man's pleasure and his existential calling is the struggle for more resources, rather than the enjoyment of their consumption, one need never retire.

Of course, Skilling did retire, at the ripe age of 47, citing personal reasons. It is more likely that this captain was merely abandoning his ship as the leaks were beginning to widen, because Skilling has the philosophy of a survivor. He sold out a great portion of his stock, the proceeds of which are now paying his defense attorneys. One must wonder where his money would have ended up if Enron had stayed afloat and if he had stayed aboard. Even if Skilling had continued to work until his dying day, fighting and gambling and *living* in the untamed market, what would his Last Will and Testament have been? It is difficult to say, but it almost certainly it would be short. He probably would not give it much thought. He has no reason to.

Skilling is missing something with his theory. Our aggressive instincts come from our ancestors who fought unknown danger for scarce resources, but we have other instincts, too, such as care for one's own, which comes from our ancestors who sacrificed for the sake of their issue. Asked if he realized that his own employees would slit his throat to get to the trough faster, Skilling nodded yes. The same year that he was promoted to the number two position at Enron, Skilling completed his divorce. Skilling forgets that belief in things longer lasting than oneself has its evolutionary advantages.

More importantly, it has its economic advantages. For capital to stay deployed, its owner must have developed affection either for the idea of his company, his friends in the company, or

for his family to whom he bequeaths the titles. After the essentials of the market have been established—money, contracts, and firms—that affection is the sole non-economic force needed to ensure economic development through the eons. Other regulations, such as truth in advertising or anti-trust law, may aid development at times, but their absence is moot next to the halt in development that would occur if every owner, upon retirement, squeezed his company for all he could. We turn, finally and briefly, to a man who kept his money in the company because he learned to love it: John D. Rockefeller.

Rockefeller's best friends in all the world were his business partners. “It would have been a pleasure as well as a satisfaction,” he writes, “to dwell with some fulness upon the stories of daily and intimate companionship which existed for so many years with my close partners and associates” at Standard Oil (Rockefeller vii). With those old and firm connections in place, nothing could pull Rockefeller's capital out of Standard Oil, not anti-trust action, not a universal desire to help humanity, not the moral pressure of wider society. He financed his philanthropy not with a mortgage on his buddies' farm, but with a tithe of the harvest. Unlike Skilling, Rockefeller fully appreciated the power of affection; successful philanthropy, he wrote, must “root the [charitable] institution in the affections of as many people as possible who, as contributors, become personally concerned...” (183).

*Becoming personally concerned with the institution:* that is how self-interest turns into selflessness, how capital remains in industry, and how the market copes with death in the very long run. Even if Keayne and Skilling had retired with society's good graces, they would have removed their capital in enough time. Keayne had no firm to care about, and Skilling did not care about anything other than Skilling. The thriving American economy is not a monument to Reason, whose mortal chill will cause a desperate, aging owner to ransack his company; it is instead a collection of ideas and people who have benefited by irrational, affectionate sacrifice. Our economy's enduring features are wonderful paradoxes: houses of economic rationality erected and maintained by our ancient, visceral urge to protect our offspring, our companions, and our legacies.