

# The Economics of Ego Surplus



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A novel about the global economy

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To my mother and father



## Author's Note

We think of terrorists as people with bombs strapped to their torsos or stuffed into cars. Meanwhile, economic outlaws wreak their own kind of havoc. Before collapsing in the 1990's, BCCI became one of the largest private banks in the world on the money of drug dealers, weapon smugglers, human slavers and corrupt politicians. More recently, sophisticated investors laid our economy low trying to make the markets their own personal piggy banks. Even now, much of what happens on the markets is veiled in complexity and higher math. Automated trading systems analyze the behavior of other traders, then buy and sell vast blocks of securities in fractions of a second to profit from tiny price movements. Such trading may have played a role in the May 6, 2010 "flash crash," when the Dow lost and then regained almost 1,000 points in under an hour.

Terrorism and high finance are two very different pursuits. But what if someone decided to put the two together?



“Let’s go wide open. Let’s see what we see, record what we find, and not fool ourselves with conventional scientific strictures.”

-John Steinbeck, *The Log from the Sea of Cortez*

"Humility, like the darkness, reveals the heavenly lights."

- Henry David Thoreau



## The Economics of Ego Surplus



## **A Metaphorical Killing**

Chaotic and shimmering, the waters of the Arabian Gulf danced in the twelve-foot-tall pane of glass that served as the conference room's western wall. Closer in, small waves kissed the beach where the land rose up from the sea in a broad slope of sand before transforming into lawns and shrubbery surrounding palatial resort hotels where people lounged and played in the sun. From that point inward, nature gave way to the hard flatness of human handiwork – street, building and automobile – that led right to the base of the skyscraper that held the conference room.

The room, nearly a mile in the sky, elegant and well appointed, was empty save for a tall, middle aged man in a charcoal suit and white shirt seated at an oval table. He was soon joined by a wide man, somewhat younger, also in a suit, who sat in a chair set back against a wall. Over the next ten minutes, four additional men and one woman came into the room, each taking a seat at the table. They sat in relative silence until the Tall Man rose and picked up a laser pointer.

“Friends, I am not one given to easy speech making, but the momentousness of the day compels me to a few words. While we must forgo

public recognition, we all know the import of our work. As concerns financial markets, we have far surpassed the level of understanding achieved at any research institution or university in the world. Scholars on the short list for Nobel Prizes are, compared to us, chimps floundering in cages of their own ignorance.

“What we have learned has placed in our hands the greatest asymmetry of power the world has seen since the United States created the first atomic bomb. Now, the time to use this power has arrived.”

He tapped the laser pointer gently on the top of the conference table before continuing. “Last night I had a dream. The United States was presented to us, right on this very tabletop, as a huge swine prepared for slaughter. What an appropriate metaphor it was! America the great pig, the eater of garbage, wallowing in the scum and muck of its own decomposing culture!”

Some of those seated at the table shifted uncomfortably. Perhaps noticing this, the Tall Man composed himself, ran a palm down the length of his tie, picked up a small controller and clicked it. A white screen appeared from a slot in the ceiling above the window, slowly erasing the view as it came down.

“Let the demonstration begin.”

## **Creation Story**

The whole thing started with Adam. Long before he was born, of course, people had spread across the earth, hacking a life as best they could from the gift of the planet’s resources – its soil and vegetation, woods and waters and minerals. But not until Adam Smith came along had anyone looked at all this activity, thought and wrote about it in such a way that it became its own field of study, one called economics.

He was born in 1723, a pregnant period in history. The spread of economic markets was creating a new level of freedom. For the first time ever, common people were deciding what to do with their work lives, based not on what a parent had done, nor on the order of a King, but on where they thought their fortune lay.

Smith, whose father was a customs official, decided his fortune lay in teaching. After studying at Oxford, he returned to his native Scotland. At age 27 he became a professor at Glasgow University.

He described this as the happiest time of his life, but one day gave it up for a lucrative offer to become a tutor to the son of a Duke. When he left the university, in mid-term, to begin this new job, so high was his students' regard for him that they refused to accept a refund of their course fees.

While a tutor, Dr. Smith began work on *The Wealth of Nations* - the book that would make him the father of modern economics. In it he argued that a market economy is so efficient that it might one day lead to *universal opulence*, a near-paradise where even the lowest laborers enjoyed great wealth.

How could this happen? Smith noticed that in his own time more and more of the goods and services people consumed were being bought and sold in markets. Where a family once made most of the clothes its members wore, more and more they were buying them from clothier shops. Where a family once might have built its own cabin to live in, more and more they were paying professional builders to do it. Such trading, Smith said, was the source of all of the wealth of nations, because it let everyone in the nation specialize in doing one thing very well.

Thanks to his time as a tutor, Dr. Smith obtained considerable wealth himself. When he

returned home with a lifetime pension, he settled down in Edinburgh to a relatively quiet and happy life as an intellectual.

Little is known of his personal affairs, but he once remarked that "I am a beau in nothing but my books." He remained a bachelor to his death in 1790. A contemporary placed the reason for this as an attachment of several years with a woman from his youth, whose name is lost to history. She reportedly outlived Dr. Smith by a number of years and also never married, and was so beautiful that it remained evident into her eighth decade.

### **Demonstration**

The Wide Man rose from his chair and took a seat at the end of the conference table, separated from the others by several empty chairs. He opened a notebook computer and turned it on. The image was projected onto the screen for the others to see.

"Bring up CNN International on the side," the Tall Man ordered. Soon the screen was divided into two images: CNN International news on one side, and on the other what appeared to be a stock trading screen.

“Execute trade one,” the Tall Man instructed. The Wide Man complied with a rapid clicking of keystrokes. Graphs began to appear on the trading screen. The Tall Man occasionally noted one of these with the laser pointer and commented on it to the group. This continued for most of an hour. Some in the group began to look bored, but everyone’s interest piqued when the anchor suddenly announced a new story.

“We have breaking news. Joining us is Karl Russo on the floor of the Moldovan Stock Exchange. Karl what’s happening?”

“It is crazy here, Maya. Stocks are in a free fall, down almost 30 percent in the last half hour.”

“What’s behind it? Are other exchanges around the world down as well?”

“No, that’s the strangest part. The Nikkei, the Dow, London, they’re all up in the most recent trading, though that may change if this continues. There’s no economic data that anyone can find to explain what’s happening. But one thing we do know, investors here are beginning to panic.”

As the morning wore on and the small group in the conference room watched, the Moldovan market continued to nosedive, losing more than half of its prior-day value by noon.

The Tall Man indicated two on-screen graphs with his laser. "As soon as they cross, execute trade seventeen. We will turn it around."

Two hours later, the Tall Man finally sat down, looking wearied. The others in the room watched him for a moment, and then applauded, standing.

CNN International went full screen.

"We're joined again by Karl Russo at the Moldovan Stock Exchange. Karl what's the latest?"

"Maya, the market just closed for the day, get this, up 2% from yesterday! It was the craziest day I have ever seen in twenty years of reporting."

"That's amazing, Karl. Has there been any explanation of what happened and why?"

"No, but already politicians are promising investigations and the Exchange has people checking for the possibility of a computer malfunction. So far they have not found anything. Whatever it was, the sighs of relief here are audible. We dodged a bullet today."

## **Southern Methodist University**

It was two-and-a-half hours into the final exam and I couldn't stand the sitting anymore. I got up and walked casually to the chalkboard, where one

pointy stub of chalk sat in the tray like a used-up cigarette. I took it between my fingers and started thinking about topics for the dissertation I was going to have to write. I jotted down some possibilities:

International trade

Financial markets

Globalization

Only one student remained. Her name was Cindy and she sat on the front row, eyes focused on her exam as reddish brown hair meandered down her head and onto her shoulders in loose curls. She periodically looked up at the window over my desk, whether pondering a question or daydreaming I wasn't sure. Through the window it looked like a perfect day outside.

I walked back to my desk. A copy of John Steinbeck's *The Log from the Sea of Cortez*, which I had been reading, lay at an angle on the desktop. It was Steinbeck's account of a biological expedition he made to the long, narrow body of water separating the Baja Peninsula from mainland Mexico.

The part I had been reading was about a scientist not being able to study something without changing it in some way. For instance, if a scientist

wanted to dissect a fish, first he had to kill it. So maybe it was no longer a fish that the scientist was studying. Maybe it was just a piece of dead meat.

That's how I felt about economics. For two years I had sat and watched professors handle their chalk like scalpels, expertly dissecting theories to the rapt attention of graduate students. They splayed open coverings, put intricate inner workings of graphs and equations on display.

I wasn't sure I had the stomach for it anymore. I wanted to go out and study the real economy, find my own Sea of Cortez, where I could observe a real-world system in all its dimensions and complexity, watch how it lives and breathes.

I heard a pencil drop and looked up. Cindy was gathering her stuff. She paused for a few seconds and blew air from her mouth straight up across her face, fluttering her bangs. She stood up, maneuvering her backpack onto her shoulder, and brought me her exam.

Along with the exam she put a bright red apple on my desk, which made me laugh.

"Thank you so much for this semester," she said. Her eyes were the same shade of green as the chalkboard. "I've really enjoyed the class. I never knew economics could be so interesting."

You have to take student compliments with some salt when final grades are in the balance, but I thanked her and she took the long walk to the back of the sloping lecture hall, disappearing through the exit.

I straightened the stacks of exams on the desk and walked over to the chalkboard.

“Dr. Linwood!” a voice called.

It was Cindy. Her head was poking through the door at the back of the room.

“When will our final grades be calculated?” she asked.

“Tomorrow afternoon. Just call or email me. And call me Kyle, not Dr. Linwood. Remember, I’m a graduate student, not a Professor.”

She smiled and withdrew her head and the door closed softly against its hydraulic arm.

I picked up an eraser from the chalkboard tray and rubbed it across the dissertation topics I had written down. The precisely laid chalk particles smeared across the board and scattered into dusty clouds. Another semester of Economics 1312 was in the books. I gathered up the exams, turned off the lights and left the classroom.