All the Marbles

We learn about economic theory on the playground. Money is a very old technology, and we intuitively understand how the symbols for supply and demand breathe new life into any game. Somebody yells "Keepsies" and we know what that means: anyone who steps into the circle has to accept the risks that lead to the rewards. We expect everyone to play with their own marbles, to take their best shot, and live with the consequences, win **or** lose.

When the biggest kids lose, the rest of us don't just hand over our marbles to make sure they can play for as long as they want. The game has rules, and it's not much fun if they are rewritten to make sure the big kids always get to keep all the marbles. In the bigger picture, that's where we're at right now. The big kids are holding the marbles, and they don't plan to invite anyone else to play with them anymore.

When kids play marbles in Taiwan, they make a course with five holes, and the first one to sink their marble in all of them becomes a "ghost" who gets to keeps any marble they can hit. The profit is private, and that ghost can fill their bag with marbles pretty fast, if they're a good shot. We like to think Wall Street once worked that way, rewarding those with the right skills for acting fast. But that may be another happy myth, like something Horatio Alger once wrote about in the Gilded Age. In Taiwan, each player gets a chance to be the ghost; on the Coral Island where we build our modern fortunes, however, the same kids stay at the top of the pyramid, allowed to fill their bags with all the marbles.

Civilization is built from, and threatened by the will to power. When leaders emerge, we trust them to serve a common interest. If those who claw their way to the top force the many to carry the costs, and allow the few to keep the rewards, the center will not hold for very long and things *will* fall apart. The concentration of wealth has a natural limit, a tipping point where the pitchforks and the torches come out of the shed. What does that look like? How will things fall apart when those costs are socialized for too long? Let's take a look under that shaded veil …

They call you in for an unexpected meeting. The gig is over. It's nothing personal, they like your work and ask for you by name, but the budget has to be cut.

The unemployment checks start right away, but they keep you right on the edge of a fine threshold. The health insurance and mortgage are covered by some plans, but not for very long. The kids don't go hungry, but there's not much to look forward to on the close horizon.

One thing happens, and then another. A root canal for the wife, a death in the family, the car has a hiccup: it all goes on the card, at least until you hit that limit. You put hundreds of resumes out into the wind, but none of them land.

Then, you get lucky. Somebody decides to take chance on you, and makes an offer you can't refuse. The only catch … it's not in the same town. So, you make that call and put up the sign in the yard. After a couple of weeks, you have to commit to the move and take the kids to a different school district. You hope for the best, but you sign a lease and pray for some kind of offer on the American Dream. It doesn't come.

The smell of burnt equity. The short sale offer is hard to swallow, but after a year or two, there's not much of a choice. The sharks clean up, and you stay hungry. You play by the rules, but you can't make up any of the lost ground. Willy Loman knows what happens in the last act, and he's waiting to shake your hand at the end of a long and hard road.

When one person goes down that rabbit hole, it's a tragedy. When it happens to millions, the future of an entire culture is threatened. Personally, we find ourselves thrust into the role of the canary in a financial coal mine. The balloon of private debt, much of it based on mortgages, and the socialization of risk that allowed it to grow, created the condition for our reversal of fortune.

First, we received that unexpected news, that we would lose our jobs. Then, we had to move, and our "safe" investment went south. Other, normal things happened, and those "life events" pushed us into a full debt load. As we try to stay afloat in a rising tide of interest, we don't buy anything we don't really need, we don't go on vacations, and we can't afford anything that might help push an economic recovery along.

If one family sinks into a pit of debt, we don't feel the impact. If millions have to declare bankruptcy, then the full cost of socialized risk becomes obvious. Institutions that rely on interest payments from private debt will lose their foundation: it will rot from below as each desperate family takes the only route left to them. It won't be pretty – chaos will prevent any planned "write down" of the debt and the loss will appear on the balance sheet in harsh relief. We could learn from the Japanese, if we chose to. They just spent ten years writing down a crushing load of debt, and they have shown that it can be done. It won't be fun, but it's that or trade the Coral Island for that unnamed atoll where the Lord of the Flies holds court.

The Peltier Glass Company of Ottawa, Illinois went out of business in 2002. They were known for making the best marbles in America. Some blame the rise of television for the end of that line of business. But I think we know better -- if the biggest kids are just going to hoard them, there's just not much point in making them anymore.

Steven Peterson, 2012

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