

# Finance and Society

Jerry Davis  
Laurent Picard Distinguished Lecture  
McGill Desautels Faculty of Management  
12 April 2011



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HOMES | OCTOBER 12, 2010

## Document Questions Cloud Recovery

Agents Fear Housing Could Stall as Uncertainty on Foreclosures Unnerves Buyers, Especially Investors

By NICK TIMIRAOS AND DAWN WOTAPKA

Sales of foreclosed homes have helped lay the groundwork for housing recovery in many of the nation's boom-to-bust markets. Now, some real-estate agents say that recovery is at risk because of delays in bank foreclosures.

**EXPERIENCE WSJ PROFESSIONAL**

Editors' Deep Dive: Foreclosure Fallout Hits Lenders

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NATIONAL MORTGAGE NEWS  
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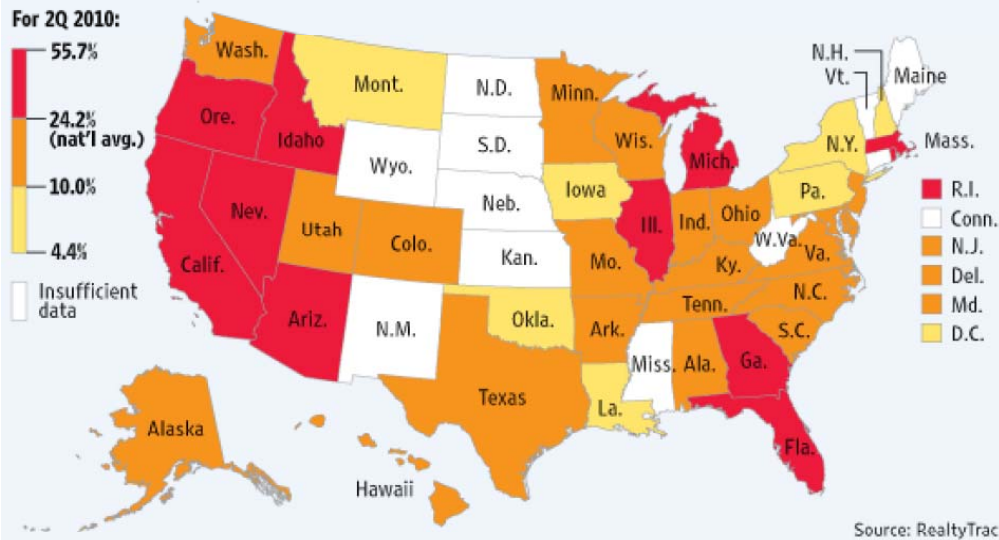
Homes are being pulled from the market, and buyers—especially investors intent on quickly reselling foreclosed properties—are retreating to the sidelines amid growing uncertainty over the extent to which banks filed fraudulent foreclosure documents.

On Tuesday, Wells Fargo & Co. said it had started a review of all pending home foreclosures in states where certain paperwork was required but it did not suspend foreclosures or foreclosure sales, as have other big banks.

Meanwhile, GMAC Mortgage, a unit of Ally Financial Inc. and one of the first to suspend some foreclosures last month, expanded its review to all 50 states. Initially GMAC's review was limited to 23 states that require court approval for foreclosures.

Bank of America Corp. last Friday agreed to halt all foreclosures and foreclosure sales, the first bank to do so.

## Driving the Market | Share of home sales in some stage of foreclosure



ROI | OCTOBER 8, 2010

## The Great Mortgage Mystery

By BRETT ARENDS



The big question from the mortgage meltdown isn't why so many distressed homeowners are defaulting on their loans.

It's why any of them are still making payments.

In the worst-hit areas millions have no equity left, and little hope of seeing any anytime soon. The market value of their homes is far below the size of the mortgage.

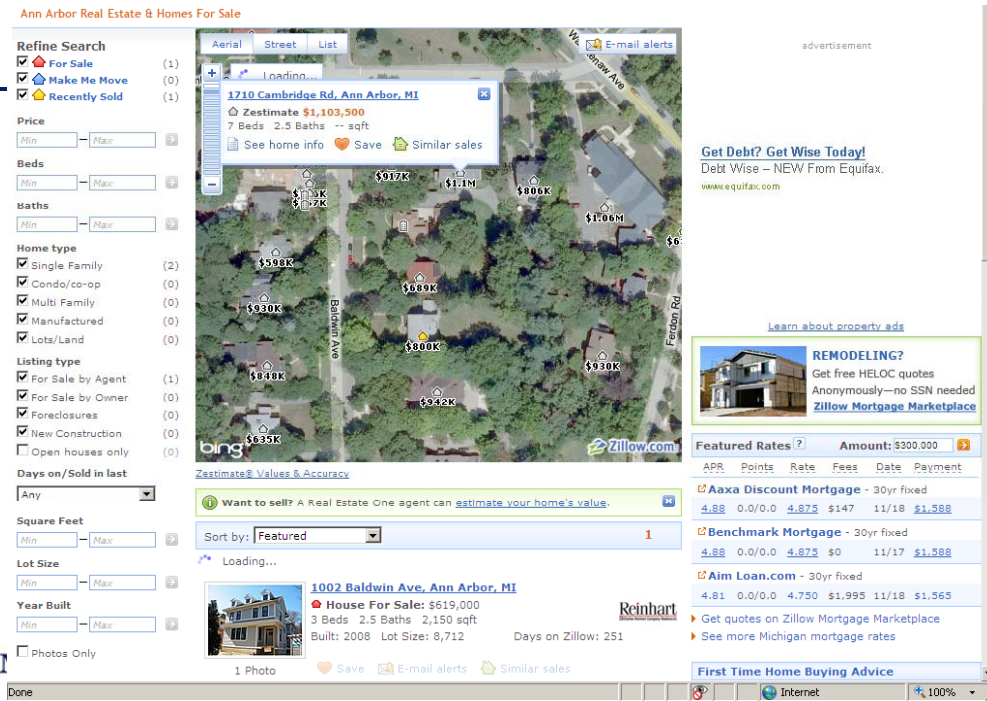
If they just stop paying, what is going to happen to them? In many cases they may get to live in the home rent-free for months, even years, until the bank gets around to seizing it.

If Frank Abagnale—the con man played by Leonardo DiCaprio in the film "Catch Me If You Can"—were operating today, he'd probably be living rent-free in a super-luxury high-rise in Miami.

Consider the latest revelations. The big banks are so backed up with foreclosures that some of them resorted to hustling through repossessions without the proper paperwork. Some of them—including Bank of America, J.P. Morgan Chase and Ally Financial's GMAC Home Mortgage—have announced a temporary freeze in some states on further foreclosures while they sort through the mess.

## How did Main Street turn into Wall Street?

- Half of US households are invested in the stock market through mutual funds and 401(k) plans
- Thanks to mortgage securitization and low interest rates, most homeowners with mortgages refinanced them during the first half of this decade
- The **personal savings rate** (employment income – spending) in the US turned **negative** in 2005 for the first time since the Great Depression
- But don't worry:
  - “The decline in an often-cited aggregate personal saving rate may not be cause for much alarm for retirement preparedness. Much of this decline can be attributed to spending triggered by **wealth increases from capital gains on housing and financial assets.**” (*Economic Report of the President 2006*)



Ann Arbor Real Estate & Homes For Sale

Refine Search

- For Sale (1)
- Make Me Move (0)
- Recently Sold (1)

Price: Min Max

Beds: Min Max

Baths: Min Max

Home type

- Single Family (2)
- Condo/co-op (0)
- Multi Family (0)
- Manufactured (0)
- Lots/Land (0)

Listing type

- For Sale by Agent (1)
- For Sale by Owner (0)
- Foreclosures (0)
- New Construction (0)
- Open houses only (0)

Days on/Sold in last: Any

Square Feet: Min Max

Lot Size: Min Max

Year Built: Min Max

Photos Only

1710 Cambridge Rd, Ann Arbor, MI

Zestimate \$1,103,500

7 Beds 2.5 Baths -- sqft

See home info Save Similar sales

1002 Baldwin Ave, Ann Arbor, MI

House For Sale: \$619,000

3 Beds 2.5 Baths 2,150 sqft

Built: 2008 Lot Size: 8,712

Days on Zillow: 251

Featured Rates

APR	Points	Rate	Fees	Date	Payment
4.88	0.0/0.0	4.87%	\$147	11/18	\$1,588
4.88	0.0/0.0	4.87%	\$0	11/17	\$1,588
4.81	0.0/0.0	4.75%	\$1,995	11/18	\$1,565

## Due to this “wealth effect,” the housing bubble disguised weaknesses in the real economy

- Americans extracted perhaps **\$800 billion per year** in home equity from 2004-2006 – about 9% of US disposable income (Greenspan and Kennedy, 2008)
- Housing price increases fueled economic activity and job creation in retail and housing sectors
  - **One-quarter of new jobs created between 2003-2006 were in housing-related industries**
  - There were 400,000 mortgage brokers in 2006
  - And 1.2 million real estate agents
  - Roughly \$300B/year went for personal consumption, promoting growth in retail employment

## Was the housing crash utterly unpredictable?

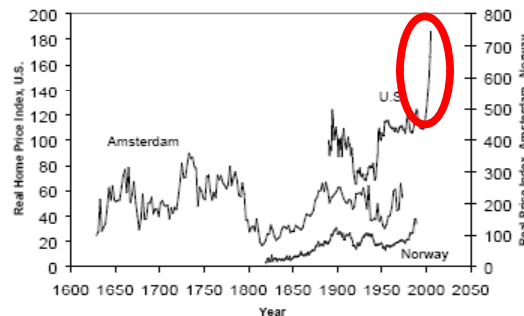


Figure 1. Real home price indexes for the United States 1890-2005 (Shiller 2005), Amsterdam 1628-1973 (Eichholtz 1997) and Norway 1819-1989 (Eitheim and Erlandsen 2004)

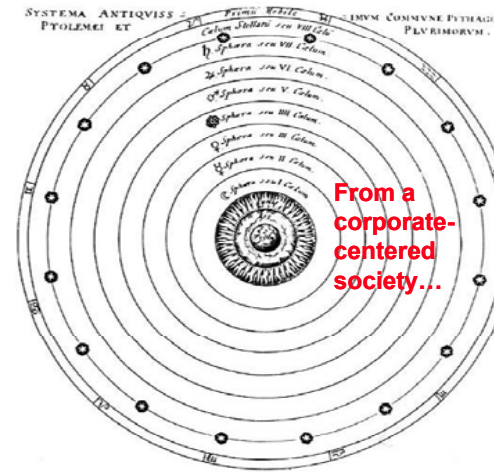
“The magnitude of the current boom is practically **unique in history**, making it difficult to predict what comes next based on historical examples...It's notable that until the recent explosion in home prices, **real home prices in the United States were virtually unchanged from 1890 to the late 1990s.**”

Robert Shiller, March 2006

## The mortgage crisis is a symptom of a broader transition in economic institutions

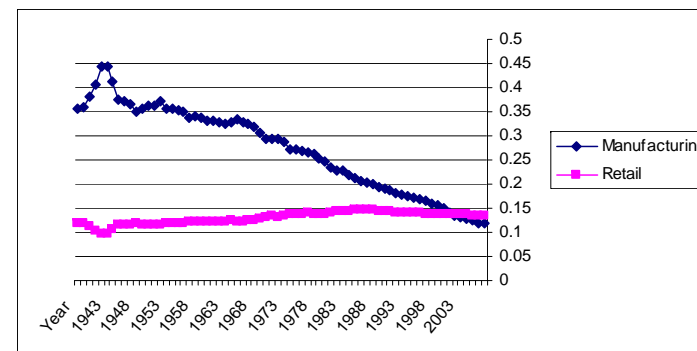
- The US has shifted from an industrial to a **post-industrial economy**
- Employees are **less tied to particular employers** located in particular places
- Households are **more tied to financial markets** through college and retirement savings invested in mutual funds, credit card payments tied to LIBOR, and mortgages ultimately owned by dozens of different financial institutions

## This represents a Copernican shift in American society



Post-industrialism (def. 1): “the majority of the labor force is no longer engaged in agriculture or manufacturing but in services” (Daniel Bell, 1973)

## Manufacturing employment is increasingly rare in the US

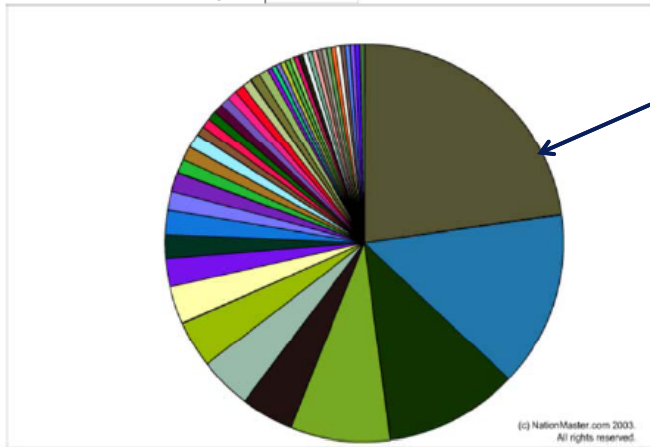


Proportion of US private labor force employed in manufacturing and retail, 1939-2010 (Source: BLS)

Since January 2001, the US has shed 5.5 million jobs in manufacturing—one in three

As of March 2009, more Americans were unemployed than were employed in manufacturing

## The US still leads the world in manufacturing value-added...



### Global share, 2008:

US:	19.0%
China:	16.1%
Japan:	10.5%
Germany:	8.0%
Italy:	4.1%
France:	3.3%
UK:	3.0%
Russia:	2.7%

## ...it just doesn't require employees to do it (cf. agriculture)

THE WALL STREET JOURNAL  
WSJ.com

CAREERS | MARCH 9, 2009

### Lean Factories Find It Hard to Cut Jobs Even in a Slump

By TIMOTHY AEPPEL and JUSTIN LAHART

SPARTANBURG, S.C. -- At a factory here that churns out plastic parts for everything from spray cans to blasting caps, laying off just one worker can be more trouble than it's worth.

The plant, owned by Cleveland-based Parker Hannifin Corp., has become so lean over the past decade that many assembly lines run with only a handful of highly trained workers.

So while mass layoffs have driven the U.S. unemployment rate to its highest in 26 years, Parker and other companies like it are responding to the slump in more surgical ways, mainly by cutting hours and shedding temporary workers.

"Because of productivity gains, every one of my people carries more dollars in sales today," says Donald Washkewicz, Parker's chief executive. In 2000, the average Parker worker represented about \$125,000 a year in sales. Today, that figure tops \$200,000. "If I need to cut back, I have to cut back fewer people to achieve the same goal."

Similar trims are taking place at each of Parker's nearly 300 factories. And to varying degrees, this is happening at thousands of other large and small factories across the U.S.

## The largest US employers have shifted from manufacturing to retail and other services

### 10 Largest US Corporate Employers, 1960-2010

1960	1980	2010
GM	AT&T	WAL-MART
AT&T	GM	TARGET
FORD	FORD	UPS
GE	GE	KROGER
US STEEL	SEARS	HOME DEPOT
SEARS	IBM	SEARS HLDGS
A&P	ITT	"AT&T"
EXXON	KMART	WALGREEN
BETH. STEEL	MOBIL	VERIZON
ITT	GTE	SAFEWAY

**Wal-Mart now employs roughly as many Americans as the 20 largest manufacturers combined**

Manufacturing Oil Services

## Ten industries with most-tenured employees

Industry	Avg tenure	Age	%
Agriculture	14	47	1.6
Utilities	13	45	0.9
Petroleum and coal products mfg	11	45	0.1
Forestry, logging, fishing, hunting	10	44	0.2
Electrical equipment, appliance mfg	10	46	0.3
Public administration	9	45	4.9
Transportation equipment manufacturing	8	44	1.4
Beverage and tobacco products	8	38.5	0.1
Paper and printing	8	43	0.9
Primary metals and fabricated metal prods.	7	43	1.4

## Ten industries with least-tenured employees

Industry	Avg tenure	Age	%
Internet publishing and broadcasting	0.5	42.5	0.0
Food services and drinking places	1.5	26	5.0
Private households	2	40	0.6
<b>Retail trade</b>	<b>3</b>	<b>38</b>	<b>11.9</b>
Motion picture and sound recording	3	34	0.3
Rental and leasing services	3	36	0.4
Administrative and support services	3	40	3.3
Social assistance	3	41	2.2
Arts, entertainment, and recreation	3	38	1.8
Accommodation	3.5	40	1.3

## Retail jobs are not like manufacturing jobs



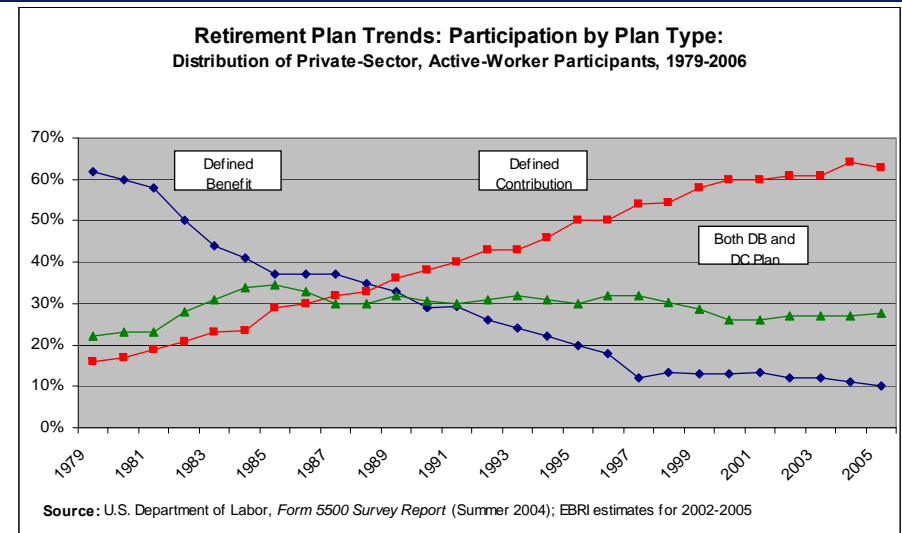
- Median hourly wage in “Motor Vehicle Manufacturing” for “Production Occupations” (May 2008) : **\$27.14**
- Median tenure with current employer in “Transportation Equipment Manufacturing” (Jan. 2004 CPS): **8 years**
- Median hourly wage in “General Merchandise Stores” for “Sales and Related Occupations” (May 2008) : **\$9.33**
- Median tenure with current employer in “Retail Trade”: **3 years**
- Mean weekly hours worked at Wal-Mart: **34**
- Estimated annual turnover at Wal-Mart: **40%**

## Long-term attachments to employees can be costly...

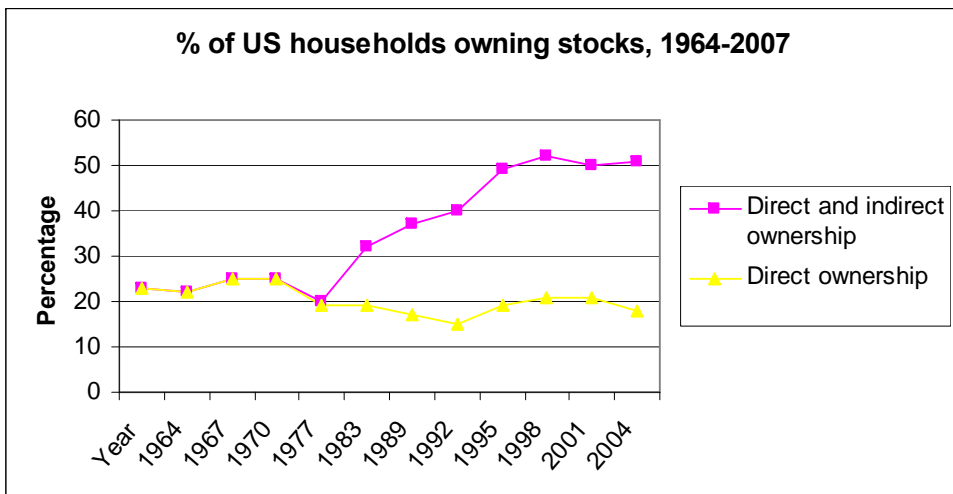
“Our legacy costs in pensions and health care are an area of significant competitive disadvantage for us... We're now subject to global competition. We're running against people who do not have these costs, because they are funded by the government.”

Rick Wagoner, CEO of GM, Feb. 2006

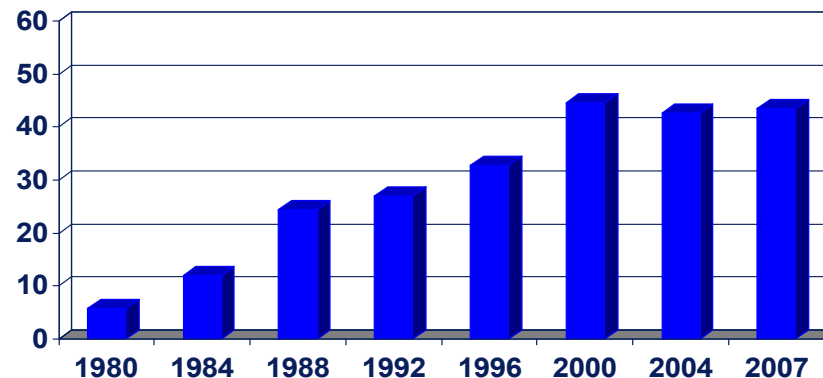
## ...so most employers have abandoned traditional company pensions in favor of relatively portable 401(k) plans



## As a result, households became increasingly invested in the stock market during the 1980s and 1990s

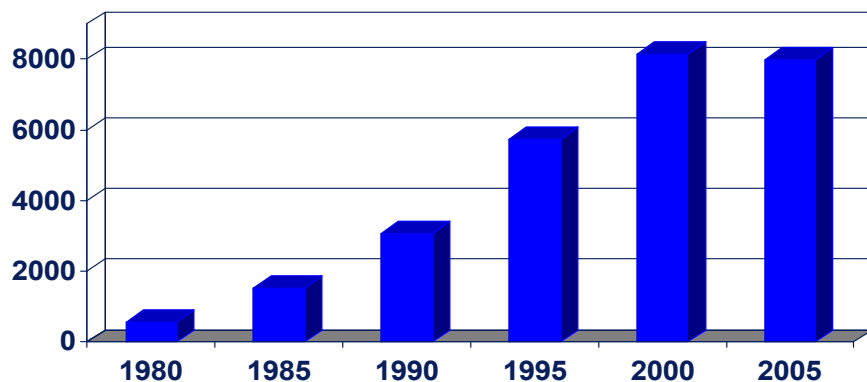


## Specifically: investors in mutual funds



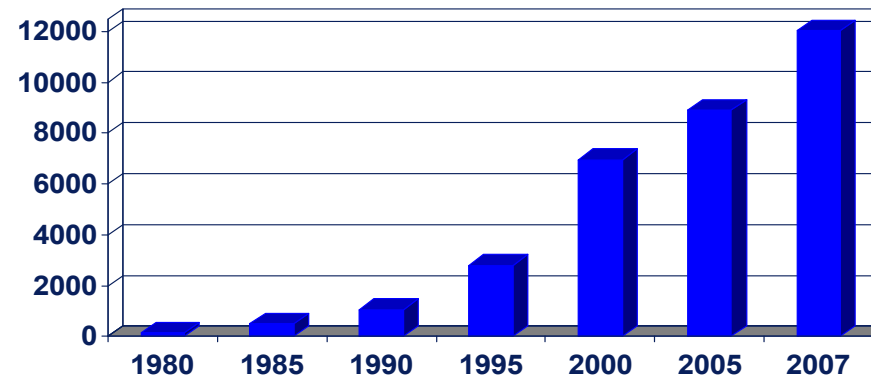
Proportion of households allegedly owning mutual funds

## There are many more US mutual funds now



Number of US mutual funds

## And they gathered a lot of assets

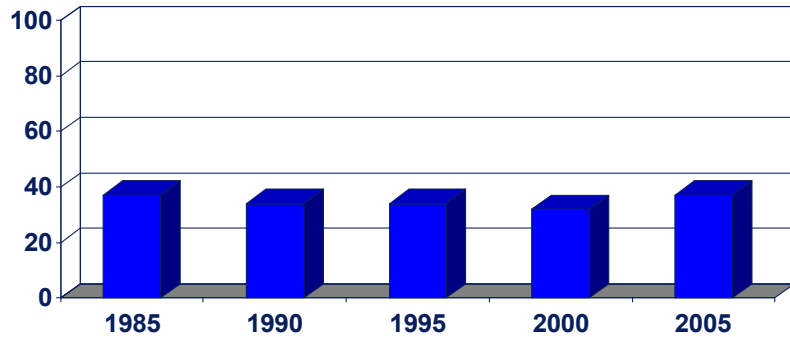


Billions of dollars in assets held by US mutual funds

## But “name brand” funds got most of the benefit

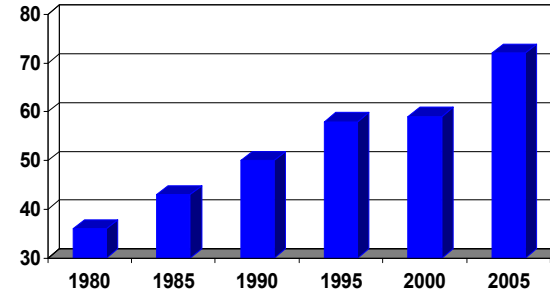


Market share of top 5 fund families



Source: Investment Company Institute 2008 *Investment Company Fact Book*

## Leaving US corporate ownership largely “intermediated” by a few mutual funds



Corporate ownership by mutual funds

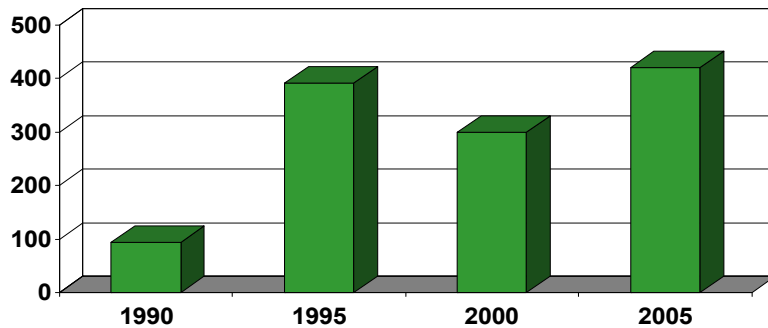
- 1950: 3%
- 1990: 8%
- 2005: 28%

Mean ownership by institutional investors of 1000 largest corporations

Source: Spectrum 13F database, various years

## Fidelity is now the largest shareholder of one in ten US corporations

Number of US-listed firms in which Fidelity is largest shareholder



# of listed firms in US

3833

5187

5828

4423

Source: Spectrum 13F and 13G databases, various years

## Increased ownership by institutions has corresponded to increased devotion to “shareholder value”...

“We exist to create value for our share owners on a long-term basis by building a business that enhances The Coca-Cola Company's trademarks.”

“Sara Lee Corporation's mission is to build leadership brands in consumer packaged goods markets around the world. Our primary purpose is to create long-term stockholder value.”

## ...and an orientation to share price induced massive restructuring favoring a “Nike model” of production

“Wall Street can wipe you out. They are the rule-setters. They do have their fads, but to a large extent there is an evolution in how they judge companies, and they have decided to give premiums to companies that harbor the most profits for the least assets.”

John Bryan, CEO, explaining Sara Lee's “de-verticalization” program

## The US economy is at an advanced stage of Nike-fication

## Corporation ≠ organization: no fixed nationality

THE WALL STREET JOURNAL  
WSJ.com

MAY 27, 2009

### Accenture to Move Base To Ireland From Bermuda

By KATHY SHWIFF

Accenture Ltd. said its board has voted to change the consulting company's place of incorporation to Ireland from Bermuda.

Accenture incorporated in Bermuda in 2001 after the company did an initial public offering.

Several large companies have recently announced plans to reincorporate from Bermuda, helping them avoid what are expected to be significant changes in how the U.S. taxes multinational corporations. Earlier this month, drug maker Warner Chilcott Ltd. said its board approved a plan to relocate to Ireland from Bermuda.

Accenture shareholders will be asked to vote on the proposed move at meetings in the next three to four months.

“We believe that incorporating in Ireland will provide Accenture with economic benefits and help ensure our continued global competitiveness,” said Chairman and Chief Executive William D. Green, adding that the company will benefit from Ireland's well-developed corporate, legal and regulatory environment.

The technology outsourcing and management consulting company doesn't expect any material change in its operations, financial results or tax treatment as a result of the change.

The company will continue to be registered with the Securities and Exchange Commission and its shares will continue to trade on the New York Stock Exchange.

## Corporation ≠ organization: no fixed boundaries

THE WALL STREET JOURNAL  
WSJ.com

LEADER (U.S.) | APRIL 15, 2008  
PICTURE SHIFT

### U.S. Upstart Takes On TV Giants in Price War

By CHRISTOPHER LAWTON in San Francisco, YUKARI IWATANI KANE in Tokyo and JASON DEAN in Beijing

But one upstart, Irvine, Calif.-based Vizio Inc., has largely surfed past the industry's woes. Its single focus: churning out low-priced flat-panel TVs.



Vizio is a fraction the size of Sony and Samsung Electronics Co., both leading brands in the U.S. flat-panel market. Yet Vizio shipped 12.4% of North America's liquid-crystal display, or LCD, TVs in the last quarter of 2007. That's just behind Sony's 12.5% share and Samsung's 14.2%, according to research firm iSuppli Corp. Overall, Vizio's sales have multiplied to just under \$2 billion last year, up from \$700 million in 2006 and \$142 million in 2005, according to the closely held company.

The California company's success illustrates the rise of a new business model in the fast-changing TV industry. Big Korean and Japanese consumer-electronics makers spent huge sums developing and marketing their own technology, creating a high barrier to entry for newcomers. They also built many key components in-house, including the all-important LCD and plasma display panels.

But panel technology is becoming ever more commoditized, meaning big brands aren't the only ones controlling the field. The shift has allowed nimble players like Vizio, which handles the design and marketing, to hook up with contract manufacturers and produce their own cheap TVs. At the same time, discount retailers such as Wal-Mart Stores Inc. are increasing their sales in the electronics category, slashing prices in the process.

Vizio now has the largest market share of LCD televisions in the US (22%)—with 180 employees

# Corporation ≠ organization: no fixed identity

May 9, 2007

## ADVERTISING

### 101 Brand Names, 1 Manufacturer

The Mass Pet-Food Recall Reveals a Widespread Practice: Many Competing Products Come From the Same Factory

By ELLEN BYRON  
May 9, 2007

(See Corrections & Amplifications item below.)

Pet owners have been reeling ever since tainted pet food led to the confirmed deaths of more than a dozen dogs and cats and likely sickened many more.

Some owners were also startled to learn that dozens of competing brands, from discount to premium, are all made by the same company, Menu Foods Inc. of Ontario.

Menu has recalled more than 60 million cans of pet food under more than 100 brand names ranging from Procter & Gamble Co.'s Iams and Eukanuba brands to Hill's Pet Nutrition Science Diet, owned by Colgate-Palmolive Co., to Ol' Roy pet food by Wal-Mart Stores Inc. Each was apparently affected by wheat gluten contaminated with melamine, a chemical substance with no approved use in food.

Poisonous pet chow containing melamine from China was made by an Ontario-based manufacturer but sold under dozens of different US brand names.

The global OEM model is not just for Nike anymore.

33

April 22, 2008

## U.S. Identifies Tainted Heparin in 11 Countries

By GARDINER HARRIS

WASHINGTON — A contaminated blood thinner from China has been found in drug supplies in 11 countries, and federal officials said Monday they had discovered a clear link between the contaminant and severe reactions now associated with 81 deaths in the United States.

But a Chinese official disputed the assertion that the contaminant found in the drug, heparin, caused any deaths and insisted that his country's inspectors be allowed to inspect the American plant where the finished heparin vials were made. He said any future agreement to allow American inspections of Chinese firms should be reciprocal.

"We don't have a strong evidence to show that it is heparin or its contaminant that caused the problem," said the official, Ning Chen, second secretary at the Chinese Embassy.

Mr. Chen said that illnesses associated with contaminated heparin had occurred only in the United States, which he said suggested that the problem arose in this country.

Dr. Janet Woodcock, director of the Food and Drug Administration's drug center, said that German regulators uncovered a cluster of illnesses among dialysis patients who took contaminated heparin. She said Chinese officials had conceded that heparin produced in their country contained a contaminant, though they say it was not connected to the illnesses.

"Heparin should not be contaminated, regardless of whether or not that contamination caused acute adverse events," Dr. Woodcock said. "We are fairly confident based on the biological information that we have had that this contaminant is capable of triggering these adverse reactions."

# Corporation ≠ organization: no fixed industry

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Listed below are the Top 50 bank holding companies (BHCs) as of 06/30/2007. If a value is not displayed for Total Assets, the data have not been posted. You can view additional information for an institution by selecting that institution.

Rank	Institution Name (RSSD ID)	Location	Total Assets
1	BANK OF AMERICA CORPORATION (1073757)	CHARLOTTE, NC	\$2,256,059,674
2	JPMORGAN CHASE & CO. (1039502)	NEW YORK, NY	\$2,026,642,000
3	CITIGROUP INC. (1951350)	NEW YORK, NY	\$1,848,533,000
4	WELLS FARGO & COMPANY (1120754)	SAN FRANCISCO, CA	\$1,284,176,000
5	GOLDMAN SACHS GROUP INC. THE (2380443)	NEW YORK, NY	\$890,137,000
6	MORGAN STANLEY (2162966)	NEW YORK, NY	\$676,967,000
7	METLIFE INC. (2345824)	NEW YORK, NY	\$509,457,014
8	HSBC NORTH AMERICA HOLDINGS INC. (3232316)	METTAWA, IL	\$383,820,898
9	TALMUS CORPORATION (2818006)	NEW YORK, NY	\$366,350,000
10	BARCLAYS GROUP US INC. (2914521)	WILMINGTON, DE	\$323,685,026
11	PNC FINANCIAL SERVICES GROUP INC. THE (1069278)	PITTSBURGH, PA	\$279,788,303
12	U.S. BANCORP (1119794)	MINNEAPOLIS, MN	\$265,560,000
13	BANK OF NEW YORK MELLON CORPORATION THE (3587146)	NEW YORK, NY	\$203,246,000
14	GMAC INC. (1562859)	DETROIT, MI	\$181,250,000
15	SUNTRUST BANKS INC. (1131787)	ATLANTA, GA	\$176,854,034
16	CAPITAL ONE FINANCIAL CORPORATION (2277860)	MCLEAN, VA	\$171,911,307
17	CITIZENS FINANCIAL GROUP INC. (1132449)	PROVIDENCE, RI	\$153,304,291
18	STATE STREET CORPORATION (111435)	BOSTON, MA	\$152,921,189
19	BBAT CORPORATION (1074168)	WINSTON-SALEM, NC	\$152,398,410
20	REGIONS FINANCIAL CORPORATION (3242838)	BIRMINGHAM, AL	\$142,824,610
21	TD BANKNORTH INC. (1249196)	PORTLAND, ME	\$131,355,762
22	FIFTH THIRD BANCORP (1070345)	CINCINNATI, OH	\$115,983,653
23	AMERICAN EXPRESS COMPANY (1937516)	NEW YORK, NY	\$115,926,564

What is a "bank"?

# Corporation ≠ organization: no employees

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More TV

Vizio M550NV 54.6" Razor LED Backlit LCD HDTV - 1080p, 1920x1080, 16:9, 100Hz, 1,000,000:1 dynamic, Built-in WFI 802.11n, VIA VIZIO Internet Apps

Item Number: V23-5369

Model: M550NV

Availability: Order Today, Ships Today

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Instant Savings: - \$450.00

**\$1,299.99**

Price: This item qualifies for Extra Protection. Select a plan below and click Add to Cart.

Extended Service Plans as Low as \$179.98

Quantity: 1

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This Item's Warranty is: +12 Months Parts +12 Months Labor

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The Vizio M550NV 54.6" Razor LED Backlit LCD HDTV lets you bring the best of the Internet to your TV screen!

The Vizio M550NV 54.6" Razor LED Backlit LCD HDTV features full 1080p resolution, 1,000,000:1 dynamic contrast ratio, built-in w/fi, VIZIO Internet apps, and a 4.1 energy star rating to bring crystal clarity to all aspects of your viewing experience.

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More Motorized Mounts

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More Recommendations

HERMIT CRAB ORGANIZATIONS

"Hermit crab organizations" maintain the brand but lose the people (e.g., Circuit City's 43,000 employees)

MICHIGAN ROSS SCHOOL OF BUSINESS

38

# Can corporations be used as tools of public policy, e.g., to create jobs?

## Apple to the Rescue?

Why President Obama should meditate on the career of Steve Jobs.

By RICH KARLGAARD

The seven-year drizzle of bad news had nearly destroyed American confidence. By Dec. 12, 1980, the prime-lending rate in the U.S. was up to 20.5%. One week later it would peak at 21.5%, the highest in U.S. history. In newly militant Iran, 50 Americans were enduring their 405th day of captivity. The hapless Jimmy Carter had 39 days to go in his presidency. But in truth Mr. Carter's presidency had failed 17 months earlier on July 15, 1979, the night he delivered his "Crisis of Confidence" address to the American people. It instantly became known as Carter's "malaise speech."

Malaise would die with Mr. Carter's presidency. A blast of fresh air preceded Ronald Reagan's presidency on Dec. 12, 1980, in the form of a thriller public stock offering, the largest since Ford Motor's IPO in 1956. That day, underwriters Hambrecht & Quist and Morgan Stanley sold shares of four-year-old Apple Computer to the public. The public snapped it up. Apple's stock spiked to nearly \$100 on day two and created more than 300 millionaire employees. Founders Steve Jobs and Steve Wozniak were instantly rich. The great American renaissance—ignited by technology, entrepreneurs and a capital gains tax rate recently reduced to 28% from 49%—had begun.

Mr. Obama and his advisers need to grasp this essential fact: Entrepreneurs are not just a cute little subsector of the American economy. They are the whole game. They will give us tomorrow's Apples and the multiplier effect of small businesses and exciting new jobs that go with them.

Entrepreneurs are necessary to keep our large multinationals on their toes. It's no coincidence that the entrepreneurial flowering of the 1970s forced a managerial revolution in large companies during the 1980s and 1990s. Without Steve Jobs, there would have been no Lou Gerstner to reinvent IBM in the '90s. Entrepreneurs like Steve Jobs make everyone better.

## Analysts Expect iPad to Give lift to Asian Suppliers

By AARON BACK, JUNG-AH LEE And CHARMIAN KOK

Apple Inc.'s iPad device may significantly increase demand for components such as touch screens and memory chips, especially if it succeeds in creating a new product category and spawning competitors, according to industry analysts.

### Apple suppliers in Asia

#### NAND flash memory:

- Samsung Electronics (South Korea)
- Toshiba (Japan)

#### LCD displays:

- LG Display (South Korea)
- Innolux Display (Taiwan)

#### Assembler:

- Hon Hai Precision Industry (Taiwan)

#### Touch-screen technology:

- Wintek (Taiwan)
- Sintek Photronic (Taiwan)

Source: Analysts

Analysts say that would be a boon to Asian suppliers, including display makers such as LG Display Co.; chip makers such as Samsung Electronics Co. and Toshiba Corp.; touch-screen makers Wintek Corp. and Sintek Photronic Corp.; and assemblers such as Hon Hai Precision Industry Co., which uses the trade name Foxconn. Shares of these companies all rose Thursday in Asia.

Apple hasn't identified its iPad suppliers and an Apple spokeswoman declined to comment.

Like many technology brands, Apple doesn't actually manufacture most of its products. It hires manufacturing specialists—mainly Taiwanese companies that have extensive operations in China—to assemble its gadgets based on Apple's designs. They, in turn, use parts from large and small manufacturers many in Taiwan, Japan and Korea.

The iPod and iPhone devices have already been a boon to component manufacturers in Asia, and many are hoping for a repeat performance.

The true component mix won't be known until Apple begins shipping the device and third-party analysts can

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May 25, 2010

## String of Suicides Continues at Electronics Supplier in China

By DAVID BARBOZA

SHANGHAI — A 19-year-old employee was found dead Tuesday morning in what appears to have been the ninth suicide this year at a factory in southern China operated by Foxconn Technology, one of the world's largest contract electronics manufacturers, according to China's state-run news media.

Foxconn, which produces electronics and computer components for Apple, Dell, Hewlett-Packard and other global companies, has been struggling this year to explain a string of suicides among young workers at its huge complexes in the city of Shenzhen, where the company employs about 420,000 workers.

A spokesman for Foxconn, a unit of Hon Hai Precision Industry of Taiwan, could not be reached for comment Tuesday, and the Shenzhen police did not return phone calls. But Xinhua, China's official news agency, said the Shenzhen police had reported that a young man they identified as Li Hai had apparently jumped to his death at 6:20 a.m. Tuesday at Foxconn.

Wang Tongxin, vice chairman of the general labor union in Shenzhen, a government-controlled organization, said the Shenzhen police had alerted his organization to the death Tuesday.

"We have already sent an investigation team to the factory, and our city government is paying a lot of attention to this," Mr. Wang said by telephone.

Company executives say Foxconn is planning to hire psychiatrists, counselors and monks, and intends to bring in 2,000 singers, dancers and gym trainers to improve life on its two sprawling campuses in Shenzhen.

China's state-run news media also reported Tuesday that Foxconn was building tall fences at its dormitories to prevent workers from jumping to their deaths.

## America's most innovative companies employ few people

- Apple: 34,300
  - Google: 19,835
  - Intel: 79,800 [44,000 US]
  - Amazon.com: 24,300
  - Cisco: 65,550 [37,050 US]
  - Microsoft: 93,000 [56,000 US]
- Kroger: 334,000 [all US]
- **Jobs lost in 1/09: 598,000**  
[That's 17.43 Apples]
- TOTAL: 316,785** [215,485 US]

## Shareholder capitalism and corporate turnover: The Dow Jones 30 Industrials in 1987

<del>Allied Signal</del>	<del>Eastman Kodak</del>	<del>Navistar International</del>
Alcoa	Exxon	<del>Philip Morris</del>
<del>American Can</del>	General Electric	Procter & Gamble
American Express	<del>General Motors</del>	<del>Sears Roebuck</del>
AT&T	<del>Goodyear</del>	<del>Texaco</del>
<del>Bethlehem Steel</del>	IBM	<del>Union Carbide</del>
Boeing	<del>International Paper</del>	United Technologies
Chevron	McDonald's	<del>US Steel</del>
Coca Cola	Merck	<del>Westinghouse Electric</del>
Du Pont	3M	<del>Woolworth</del>

Blue = in index in 1930

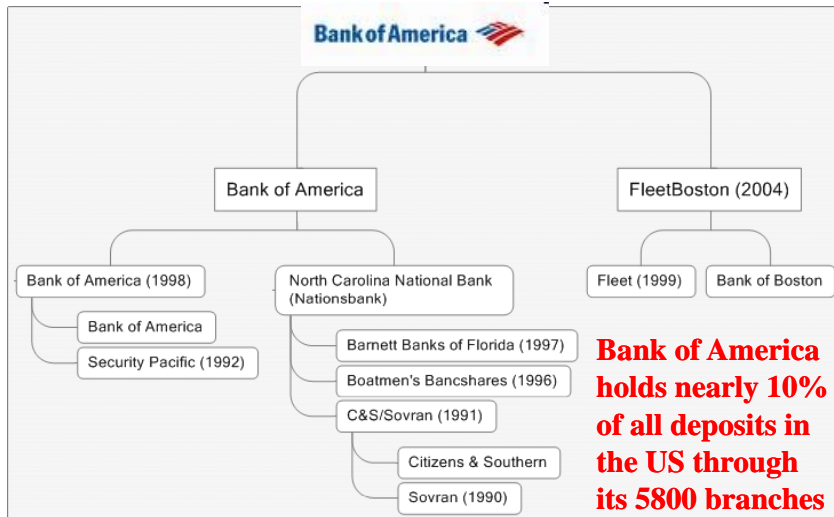
~~~~~~~~~ = gone by 2009

Recent exits include AIG, Citigroup, and GM (all now wards of the state)

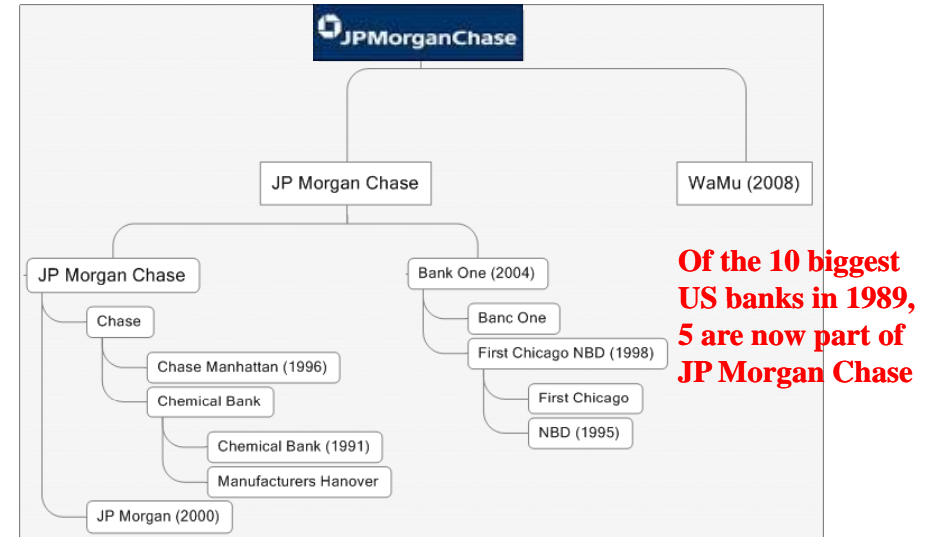
Q: If household savings have moved to mutual funds, what happened to the banks?

A: They got acquired by Bank of America or JP Morgan Chase

## How North Carolina National Bank became Bank of America



## How (almost) every New York-based commercial bank became JP Morgan Chase



## The surprising new geography of banking

### Ten largest US-based traditional commercial banks

| Bank              | Location          |
|-------------------|-------------------|
| JP Morgan Chase   | New York          |
| Bank of America   | Charlotte, NC     |
| Citibank          | New York          |
| Wells Fargo       | San Francisco     |
| US Bank           | Minneapolis       |
| PNC               | Pittsburgh        |
| Bank of NY/Mellon | New York          |
| Suntrust          | Atlanta           |
| BB&T              | Winston-Salem, NC |
| Regions Bank      | Birmingham, AL    |

**7 of the 10 largest US cities no longer have a major local commercial bank**

## The basic business of banking has changed



“No, but you . . . you . . . you’re thinking of this place all wrong. As if I had the money back in a safe. The money’s not here. Your money’s in Joe’s house . . . right next to yours. And in the Kennedy house, and Mrs. Macklin’s house, and a hundred others. Why, you’re lending them the money to build, and then, they’re going to pay it back to you as best they can. Now what are you going to do? Foreclose on them?”

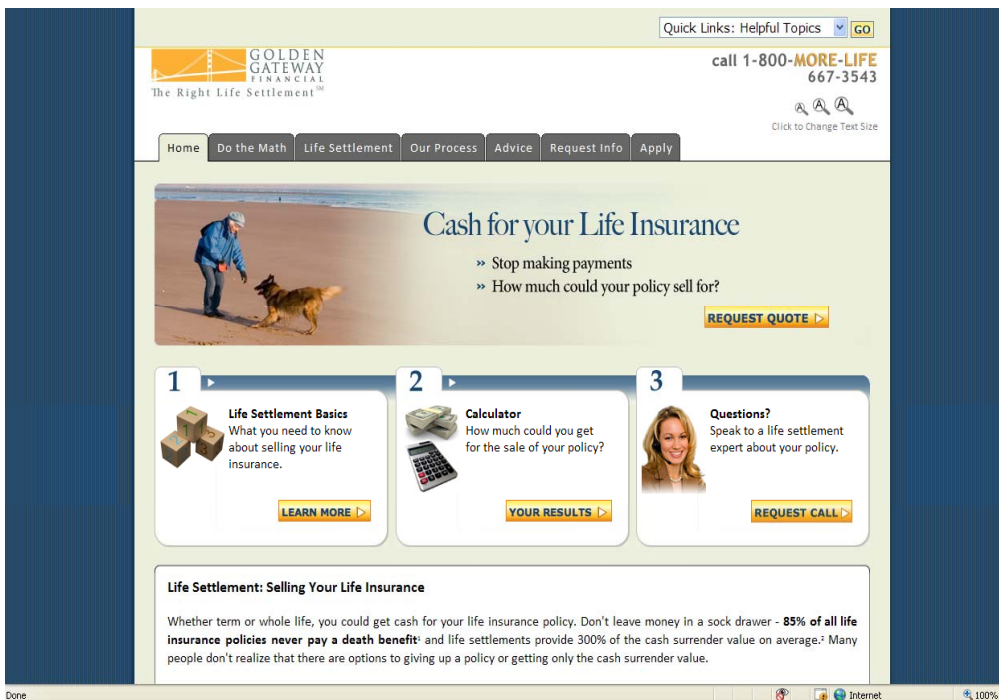
## Banking 2.0: This time, it's impersonal




"No, but you . . . you . . . you're thinking of this place all wrong. As if I held your mortgage on my balance sheet. I sold your mortgage to Countrywide 10 minutes after we closed the deal, and they sold it along with 3000 other mortgages to Merrill Lynch, which divided it into bonds that were bought by a Cayman Islands LLC, which bundled them together with other mortgage-backed bonds into a collateralized debt obligation that Citigroup sold to a Norwegian pension fund. Now what are you going to do? Stop making your payments and force those Norwegian retirees to go back to work?"

## Securitization: or, What can be bundled together and sold as bonds?

- Mortgages
- Auto loans
- Student loans
- Corporate loans
- Credit card receivables
- Business receivables (even in distress)
- Settlements of tobacco lawsuits
- David Bowie's royalties
- Blends of the above (CDOs)
- Your neighbors' life insurance policies



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**Life Settlement: Selling Your Life Insurance**

Whether term or whole life, you could get cash for your life insurance policy. Don't leave money in a sock drawer - **85% of all life insurance policies never pay a death benefit** and life settlements provide 300% of the cash surrender value on average.\* Many people don't realize that there are options to giving up a policy or getting only the cash surrender value.



Thanks to securitization, a US bank today is often a façade—a portal to financial markets

# What's a government to do?

“The interests of a transnational company are not the same as those of the country from which it originates or of the workers it has historically employed. It has become, to coin a phrase, a ‘rootless cosmopolitan.’”

Martin Wolf, *Why Globalization Works*

# If you can't beat 'em, join 'em: Governments as vendors in a marketplace of laws



**NYSE:** Open TIME: 12:13 ET DATE: 8-13-2004 SHARES: 518,926,694  
DJIA: 9809.50 ▼ 5.09 NYSE COMPOSITE: 6231.15 ▲ 14.09

**39.86** +0.44  
20 mins. delayed stock price: As of 11:53, Aug. 13

Royal Caribbean Cruises Ltd. ( RCL )  
<http://www.royalcaribbean.com>

**RCL LISTED NYSE** 

| LISTING DATE: | INDUSTRY*                        | ISSUE TYPE:  | IPD: |
|---------------|----------------------------------|--------------|------|
| 04/28/1993    | Recreational Products & Services | Common Stock | X    |

**Company Description**

 Royal Caribbean International is an international cruise company with 28 cruise ships with 58,448 berths. The Company operates two brands, Royal Caribbean International and Celebrity Cruises. These brands offer an array of onboard activities, services and amenities, including swimming pools, sun decks, beauty salons, exercise and spa facilities, ice skating rinks, in-line skating, basketball courts, rock climbing walls, miniature golf courses, gaming facilities, lounges, bars, Las Vegas-style entertainment, cinemas and Royal Promenades, which include interior shopping, dining and an entertainment boulevard.

**Investor Contacts**

[http://www.corporate-ir.net/irwa/ir\\_sifs.zhtml?tickers=100&layout=3](http://www.corporate-ir.net/irwa/ir_sifs.zhtml?tickers=100&layout=3)  
Erik Williams  
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Phone: (305) 539-6153  
Fax : (305) 539-6400  
Email Address: [investorrelations@rcl.com](mailto:investorrelations@rcl.com)



Headquarters: Miami

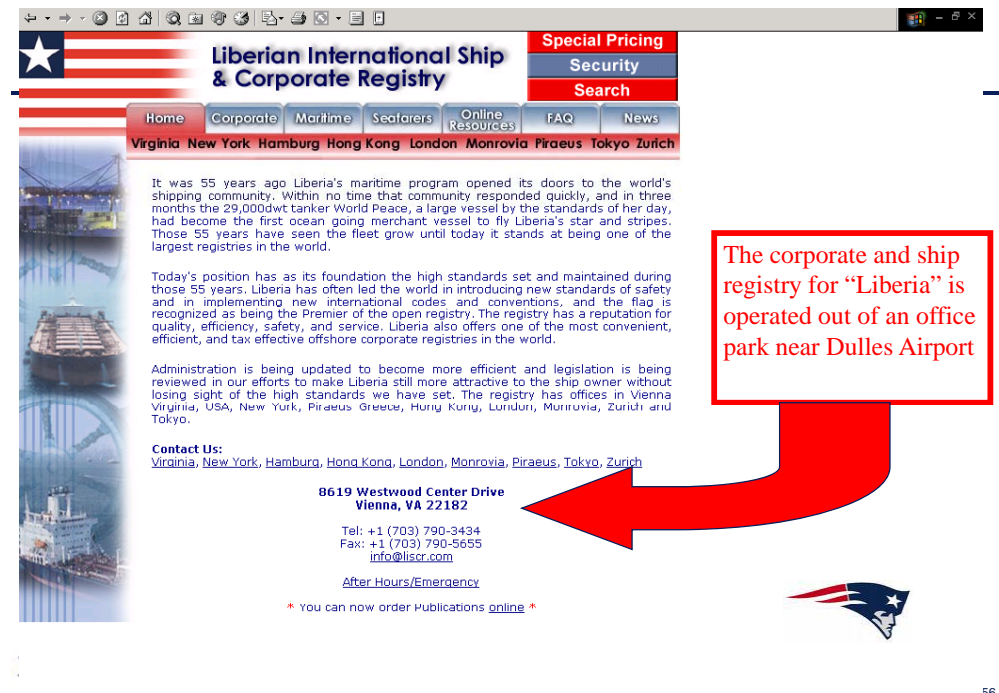
Ship registry: Ecuador, Bahamas, Norway

Ownership: Wilhelmsen family (Norway); Pritzker and Ofer families (US & Israel, via Bahamas); Osiris Holdings (Monaco); and ~ 130 institutions

Incorporation: Liberia

RCL's 2009 revenues: \$5.9 B

Liberia's 2009 GDP: \$1.6 B



**Liberian International Ship & Corporate Registry**

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It was 55 years ago Liberia's maritime program opened its doors to the world's shipping community. Within no time that community responded quickly, and in three months the 29,000dwt tanker World Peace, a large vessel by the standards of her day, had become the first ocean going merchant vessel to fly Liberia's star and stripes. Those 55 years have seen the fleet grow until today it stands at being one of the largest registries in the world.

Today's position has as its foundation the high standards set and maintained during those 55 years. Liberia has often led the world in introducing new standards of safety and in implementing new international codes and conventions, and the flag is recognized as being the Premier of the open registry. The registry has a reputation for quality, efficiency, safety, and service. Liberia also offers one of the most convenient, efficient, and tax effective offshore corporate registries in the world.

Administration is being updated to become more efficient and legislation is being reviewed in our efforts to make Liberia still more attractive to the ship owner without losing sight of the high standards we have set. The registry has offices in Vienna, Virginia, USA, New York, Piraeus, Greece, Hanoi, Korea, Larderi, Monrovia, Zurich and Tokyo.

**Contact Us:**  
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The corporate and ship registry for "Liberia" is operated out of an office park near Dulles Airport



## Conclusion: a Copernican shift in American society



## The frontier: what next?



### Stock market app

- What's the market doing?
- Barolo or Boone's Farm with dinner?

### FICO app

- Can I skip yet another month's credit card payment?

### Zillow app

- What's my house worth right now?
- Still time to refi and move to Canada?

### Facebook "Social Capital Asset Pricing Model" (SCAPM) app

- Whom should I be shorting at this talk?