

**Objectivism Lost
and an
Age of Disillusionment**

by Greg Horsman

Also by Greg Horsman

The Narcissist's Vocation
and the
Economic Debacle

This is available as a Kindle book.

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Dedication

To my family

“Everything is fine today, that is our illusion.”
Voltaire

“Convictions are more dangerous enemies of truth than lies.”
Friedrich Nietzsche

“The death of dogma is the birth of reality.”
Immanuel Kant

Forward

In the first decade of the 21st century, many educated men believed that the libertarian philosophies of limited government and strong individual liberty, based on reason and rational analysis that supported globalization, could run with minimal oversight. Key decision makers on Wall Street chose not to apply critical thinking, but to intentionally take advantage of people, resulting in the widespread collateralized mortgages that led to the meltdown of the economy. With over a 30% reduction in the major investments of the middle class—homes and pensions – there is anger and disillusionment with the people running the system. As irresponsibility and unaccountability of the financial sector were prime causes of the crisis, there is a clear need for changes that include corporate transparency and corporate accountability. Since September 2011 the Wall Street protesters call for action to address corporate greed and economic disparity.

Objectivism, the prototype of libertarianism, was a philosophy developed by Ayn Rand during the Cold War. It is the blending of free markets, reason and individualism. This book, *Objectivism Lost and an Age of Disillusionment*, documents the fall of objectivism from its lofty place of reverence since 2008. The title is patterned after the title of Milton's epic poem, *Paradise Lost*, about man's disobedience leading to the loss of the Garden of Paradise. For the most part, Milton's doubts, disillusionment and disappointment were based on the performance of a sovereign nation. He saw the righteous cause of the English Revolution destroyed by evil forces along with the dreams of republicans like himself. For the working class today, the American Dream has been destroyed by the economic debacle – the present system is failing to provide a better life for their children than they have.

Many call for increased regulation of the financial services industry to prevent further abuses and avoid the next financial crisis. The most visual message, coming from the Occupy Wall Street protest that has gone international, is about everyone paying their fair share. However, no matter how hard the regulators try, or how smart they are, they will not be able to keep on top of the risk. There is need of a new culture that the participants believe in, in order to rebuild the middle class. The application of the new evolutionary economics and new institutional economics will supply a process to introduce change. The resulting combination of competition and transparency will provide the accountability needed to strengthen the system, along with the necessary institutions to safeguard against abuse of the marketplace, within a new framework that supports capitalism.

Introduction

With the failure of communism, a great deal of support existed for the free market system. The bankruptcy of Lehman Brothers in September 2008 triggered a chain reaction that ripped through the financial market. Panic seized the US economy, money flooded out of the private financial system, and shortly not a single country or continent was exempt from the panic and crisis.¹ The consequences of the 2008 economic debacle created more than just anger and bitterness, rather the disillusionment of much of what had previously believed to be ‘true’ about the economic system.² It shattered the dream of bringing prosperity to oneself and achieving independence through hard work. Today, these old beliefs are met with questions and skepticism. Many individuals find themselves in an era of insecurity as the safe routines of their lives have come undone, and they now realize that the system failed them, and this security was an illusion.

Illusion is the ability to manipulate how other people perceive reality. When you have discovered that someone or something is not as good as you believed, you become disillusioned. The disillusionment is about the laissez-faire economic system, supported by neo-classical theory that was attributed to driving economic growth during the past three decades. We were aware that globalization had its problems, but overall believed it provided opportunities for wealth accumulation around the world. Now, when one takes a closer look around, the economic benefits are concentrated ever more at the top. Prior to 2008, it was too big a leap to critique a whole system. However, from disillusionment arises a chance to gain a more accurate perspective.³ Following the 2008 debacle, the need for change has been identified. Johnson and Kwak, authors of *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*, observe “Our goal today is to change the conventional wisdom about enormous banks. In the long term, the most effective constraint on the financial sector is public opinion.”⁴

More and more people are asking why laissez-faire economics does not appear to work, and are questioning the theories that support the free market system. This brings

the libertarian theories under scrutiny, including the need for less regulation of capitalism. This, in turn, makes the theories that support laissez-faire capitalism like objectivism, the philosophy of Ayn Rand, suspect. Objectivism is a philosophy for individualists, embraced for years, by libertarians. In practice, it allows one to determine what true knowledge is, and what it is not; and how to use one's reason to determine the difference. Rand claimed all knowledge comes through rational interpretation of the evidence of the senses of an individual, for that individual. In ethics, it holds that each individual's life and happiness is the proper purpose of morality. In politics, it advocates individual rights to life, liberty and property. While the individual is responsible for his own actions, there are important characteristics that include rationality, independence, integrity, pride, honesty, productiveness, justice and benevolence. This makes self-esteem a cardinal value and supports an individual pursuing his or her own rational self-interest.⁵

The economic theories of Hayek and Friedman went mainstream with the Reagan and Thatcher economic policies. They carried Ayn Rand's philosophy supporting free market economics along with them. Objectivism rose to yet greater heights with the rise of the new middle class in China and India and the appearance of the new wealth of globalization. Ayn Rand died in 1980, but her novel, *Atlas Shrugged* (dubbed the bible of selfishness) sold 140 million copies by 1997.⁶ With the market problems of 2008, laissez-faire economics has become one of the suspects and, as a consequence, objectivism has fallen from its lofty heights. The market problems affected significant numbers of men and women who lost money in their home investments, as well as nest eggs, because of the risk-taking of greedy bankers. This has led to calls for greater government efforts around the world for reforms, to ensure there are structures in place to support economic policies to counter the market instability, created by a lack of confidence from problems with US subprime mortgages. The die hard supporters of objectivism blame the market failures on government mismanaging the mortgage markets, and label any increase in oversight or regulations as socialism. Objectivism is known for its black and white criteria with no room for grey.

Other forces have been in play, during the last three decades of the 20th century, creating changes in the global community. In the 1980s it became important that one must do whatever he could to achieve positive self-esteem. The self-esteem movement has had a significant impact on the school system – in order to ensure positive self-esteem educational standards were lowered, creating a milieu for extreme individualism. Individualism is a balance between self-reliance and personal responsibility, and egotism. The rise of individualism is about people living and acting as individuals rather than as members of a larger group. This extreme individualism leads to narcissism. With narcissism, the greatest problem is profound disconnect from reality. This person lacks empathy and does not recognize boundaries: personal, corporate or legal.⁷

In the cult of self-esteem, individuals tolerate errors and flaws in their actions, which lead to a sense of entitlement. Entitlement is the feeling that one deserves something, whatever it may be, regardless of what they may or may not have done to earn it. There was a warning of the problem of narcissism in institutions during the 1990s. The explanation of the failures of Enron and WorldCom was described as the problems created by a few bad executive managers, and the cure was the introduction of ethics courses in business schools. The business failures were the consequences of a narcissistic bubble that the management system created.⁸ This time there are expectations for

significant changes. The other force at play is the voice of economic fundamentalists whose shrill cries warn that increased oversight or regulations on the banking and financial system is the slippery slope of socialism, thus cannot be part of the change. The challenge at hand is to provide an alternate road to sustainable economic growth to that of the apologists who would have you believe the problem was localized to a few greedy bankers or mortgage companies, while claiming the rest of the capitalist system does not have flaws.

The first six chapters of this book document the rise and fall of objectivism as a viable philosophy for the 21st century. The name of the book, *Objectivism Lost and an Age of Disillusionment*, was chosen to provide an unequivocal message that objectivism has fallen from its lofty place of reverence. The title is a take off of Milton's *Paradise Lost*, a long epic poem about man's disobedience leading to the loss of the Garden of Paradise. Milton worked for Oliver Cromwell and the Parliament of England in the 17th century, serving as an agent of the Commonwealth. From first hand experiences of the rebellion, followed by the reinstallation of the monarchy, came the republican ideas in his late writings. He became disillusioned with the men who allowed the Commonwealth and its dreams to fail. The economic debacle of 2008 has disillusioned many middle class who have watched their investments and retirement dreams disappear. Disillusionment creates an opportunity to learn from our error in judgment. This error in judgment was due to the belief in the market's ability to respond and self-correct. Orlando A. Battista (1917-1995), chemist and writer, noted for both scientific and inspirational themes, claimed, "An error doesn't become a mistake until you refuse to correct it."⁹ Having recognized the error about objectivism theories in general and the financial services industry in particular, the challenge is to analyse the situation and bring forward a process to correct it.

Some challenge the claim that this major recession may be due to the rapid deregulation of the previous three decades and is the consequences of globalization. In the previous century of deregulation and globalization, similar problems occurred. Howard Zinn described a system in which only the rich were secure:

"It was a system of periodic crisis...that wiped out small businesses and brought cold, hunger and death to working people while the fortunes of the Astors, Vanderbilts, Rockefellers, Morgans, kept growing through war and peace, crisis and recovery. During the 1873 crisis, Carnegie was capturing the steel market, Rockefeller was wiping out his competitors in oil."¹⁰

Chapter 5, Market Fundamentalism, deals with the forces of the status quo. This involves a review of the ideas known as market fundamentalism. 'Economic fundamentalists' believe that markets tend towards a natural equilibrium, and that the best interests in a given society are achieved by allowing its participants to pursue their own self-interest. Support for this system is provided from various groups of libertarians, who drew on Ayn Rand's ideas for support. She was an influence on Friedrich Hayek and Milton Friedman. Hayek had a major influence on market liberalization strategies, which included discrediting government economic planning. In the 1930s, he studied at the London School of Economics debating John Maynard Keynes' theories on the correct response to the Great Depression. In 1950, he moved to the University of Chicago and became a colleague of Milton Friedman. His polemical work against socialism and

communism supported the rapidly growing anti-communism that dominated Milton Friedman's neo-liberal triumvirate of privatization, deregulation/free trade and drastic cuts to government spending that laid the groundwork for Reagan's economic policies of deregulation.¹¹ In Chapter 6, Objectivism Lost, the message is about the failure of empires that did not respond to economic conditions of their day.

Chapter 7, Property and Competition, identifies competition and a strong middle class as an important part of the solution. Chapter 8, The Threats, discusses the challenges to introducing economic reforms. These challenges include the vested interests of those who are still making money and see no need for change. Then there is confirmation bias: the individual actively seeks out and assigns more weight to evidence that confirms his beliefs, and ignores or undervalues the relevance of what contradicts their beliefs. Even when facts contradict political ideology, challenging misbelief with fact checking doesn't necessarily work – Fox News provides a milieu where ideologues can have facts that support their worldview, continually reinforced. There exists in the conservative libertarian a mind-set of ideas adopted from Rand and Hayek that equates government regulation to fascism and nazism. These concepts were developed during the Cold War debates against communism, but are still used by conservative libertarians to oppose change in the 21st century.

Chapter 9, A Way Forward, reviews new systems available that could support capitalism. This includes a review of the status quo, the Progressive Utilization Theory (PROUT) and new institutional economics. PROUT is an alternative to both capitalism and communism, and was conceived by P.R. Sarkar in 1959. Sarkar introduced the concept of a decentralized, cooperative economic system. The main feature is the use of cooperatives for many services. Another system considered is the new institutional economics in which institutions are rules of conduct that guide and reduce uncertainties in human interaction. The vision of the new institutional economics, developed by economists such as Douglass North, consists of the development of a legal framework to facilitate the market operating optimally. North calls for a new institutional economics that “extends economic theory by incorporating ideas and ideologies into the analysis, modeling the political process as a critical factor in the performance of economies.”¹² Both new ways, like the status quo, support private property and competition while requiring an individual to be responsible for his actions.

Chapter 10, The New Conservatives, reviews the various aspects of conservative politics in the US. This heterogeneous group embraces most of the ideas of Ayn Rand and Friedrich Hayek. The new conservatism is a form of extremism, based on the idea that there is always someone more conservative than you, which the adherents use as a way of proving authenticity. It roots out any candidate who might compromise on an issue. A subset of extremism is called fusion which brings together social conservatives and unrestrained capitalism. Bringing the two together creates a candidate more radical than their colleagues who were associated with only one of the two movements. This process pulls conservatives away from the middle and makes them more radical.¹³ The new conservatives are bound together by ideas from the neo-conservatives, who espouse Levi Strauss's ideas of deception in politics. These Noble Lies include the decision to invade Iraq and the spinning of supply side economics into the “starve the beast” theory, to justify lowering taxes.

Blind faith in the markets has cost a generation their future. The free market economic system was allowed to run with minimal oversight. The agencies with some authority did not have the necessary support to address the issues created by the short-term decision making of the bankers. Chapter 11, *The New Progressives*, reviews the failure of progressives to remain united during the 20th century, leaving a heterogeneous group to advocate change in the 21st century.

In Chapter 12, *A Road Map*, the ideas of four recent books on economic issues are reviewed for answers. This review becomes the basis of the development of a road map. The four books reviewed for new ideas are: *The Return of Depression Economics and the Crisis of 2008*, by Paul Krugman, the *The Ascent of Money: A Financial History of the World*, by Niall Ferguson, *False Economy: A Surprising History of the World*, by Alan Beattie, and *13 Bankers: the Wall Street Takeover and the Next Financial Meltdown*, by Simon Johnson and James Kwak. While the authors provide a wide range of considerations for economic reform, all identify the need for change. The present system needs to be replaced with a new culture providing transparency and accountability to counter the powerful lobbying of the big banks.

Even when a believer in the free market system like Treasury Secretary Henry Paulson decided there should be no more bank bailouts, and let Lehman Brothers, the fourth largest investment bank in the US fail, the system didn't work. The failure of Lehman Brothers triggered problems at American Insurance Group (AIG), which had significant insurance policies against such account failures, and within days banks in Ireland and Britain needed propping up. The system couldn't self-correct. The effects of the cult of self-esteem compounded the flaws in the economic system. The sense of entitlement on Wall Street helped precipitate the problems, and remains an obstacle in implementing change. In the end, it is necessary to get over the disillusionment and disappointment of the economic debacle of 2008, recognizing that there is a flaw in the economic system which requires change to prevent a recurrence. The road map developed in Chapter 12 identifies the need for change in the rules of the present market system to ensure stability, and identifies two important issues: the need to address banks 'too big to fail,' and the opportunity to incorporate evolutionary economics into mainstream economic theory.

The concept of evolutionary economics appeared as part of Niall Ferguson's concept of economics, always changing and evolving. The evolution of species, the creation of wealth, and the products of species were all considered to obey similar laws. Individual competition is seen as leading to an efficient economy that functioned for the good of all, supported by Darwinian evolution. Interest in evolutionary economics accelerated during the 1980s. Evolutionary theory sees the economy as always in a process of change that involves economic actors taking actions that break from previous behavior, and an environment in continuing flux because of innovation. Evolutionary economics is about switching from rational choices of profit maximizing, to testing a diversity of ideas leading to innovation, in which adaptive efficiency is the process that defines economic efficiency.

Evolutionary economics is not a new idea. Thorstein Veblen (1887-1929) combined Darwinian evolutionary perspectives with his institutional approach to economic analysis. Veblen described the man's conflict in *The Theory of the Leisure Class: An Economic Study of Institutions*:

“The life of man in society, just as the life of other species, is a struggle for existence, and therefore is a process of selective adaptation. The evolution of social structures has been a process of natural selection of institutions.”¹⁴

Veblen believed the economic theory of his day was built on faulty assumptions about the nature of people and society. He believed economic theory needed to explain ongoing change in customary patterns of economic and social organization. His sweeping attack on production for profit, and his stress on the wasteful role of consumption for status, attracted social thinkers and engineers seeking a non-Marxist critique of capitalism. He became a leading intellectual of the progressive era.¹⁵

The first two decades of the 20th century were part of the progressive era. It was associated with democratic reform of the US political system. The 1930s was a continuation of progressive reforms, a series of government programs to counter widespread unemployment. Friedrich Hayek warned of creeping socialism during the 1940s in response to growing government controls in the West. In the 1950s, the progressives lost membership to the democrats with the appearance the Cold War and the expanding economy. With a shorter workweek and more disposable income, the middle class adopted conservative values. During the last quarter of the 20th century, progressives remained a fragmented group supporting various causes. Then in September 2011, progressive activists, under the Occupy Wall Street banner, appeared, leaderless and unfocused. Their ongoing goal being to protest the corruption and lack of accountability in the financial services industry, basically, the inequality of the financial system. This action gives a face to the lingering widespread economic problems created by the financial crisis of 2008.

Richard Dawkins, a British evolutionary biologist and author, introduced the term ‘Universal Darwinism’ in 1983. It suggests that the core Darwinian principles of variation, replication and selection may apply not only to biological phenomena but also to other open and evolving systems, including human culture or social evolution. In evolutionary economics the focus is on the analysis of dynamic processes, change and innovation. Organizational routines, regular and predictable behavior patterns are the economic analogs of genes. From a gene-centered view, the more two individuals are genetically related, the more sense it makes for them to behave selflessly with each other. This supports inclusive fitness, the theory that says an organism can improve its overall genetic success by co-operative social behavior. It is the sum of its own offspring that it produces and supports, plus the number of equivalents of its own offspring it can add to a population by supporting others. It is now believed that the evolutionary theory contains a general theory that applies to all evolving systems that biology, economics and social science can share.¹⁶

Cooperation is a prerequisite for survival of all social animals. In the evolution of the market system there is an accumulation of benefits in institutions as order emerges from these activities. Economics has been described by Lionel Robbins as “a science that studies human behavior as a relationship between ends and scarce means that have alternative uses.”¹⁷ New institutional economics explains the determinants of institutions (rules, regulations, conventions), and their evolution over time, and evaluates their impact on economic performance and efficiency. It is based on evolutionary perspective of trial and error of events that effect human behavior and economic performance. Institutions

are formed to reduce the uncertainty of human behavior. Institutions are rules of the game: humanly devised restraints that structure human interaction.¹⁸ Economics, Veblen argued, should be focused on explaining evolution and change, rather than fixing its gaze on the illusion of static equilibrium.¹⁹ Douglass North points out, "...in contrast to many earlier attempts to overturn or replace neo-classical theory, the new institutional economics builds on, modifies, and extends neo-classical theory to permit one to come to grips and deal with an entire range of issues heretofore beyond its ken."²⁰ Universal Darwinism provides a broad theoretical framework for evolutionary process to work simultaneously on multiple levels, including the selection of institutions or routines.²¹ New institutional economics creates the opportunity to include both the neo-classical economics and evolutionary economics to a new economic model.

When change is being proposed, there are challenges. Individuals who are profiting from the status quo oppose it, another group will remain lukewarm until they see the new model working for a while, while the general public needs to see the ground falling out from under them before they will let go of their familiar surroundings. There is a need to provide change that is familiar enough not to create unnecessary dissonance. The advantage of new evolutionary economics is that it was described over a century ago, and has become part of mainstream economics vocabulary. It can provide the bridge to reach out to those who fear change, and introduce the processes required for reforms to support the new economic model for capitalism, and prevent the next economic debacle.

Chapter 1

Reason in the 20th Century

John Locke (1632-1704), a philosopher defending the Glorious Revolution of 1688 in England, believed one should use reason to search after truth rather than simply accept the opinion of authorities or be subject to superstition. Used properly, reason could determine the legitimate functions of institutions and optimize the functioning of society with respect to both material and spiritual welfare. For the philosophers of this time, the point of promoting science and reason was decidedly not just the desire to understand the world, but to change it as well. This thinking evolved into the optimistic faith in the ability of man to develop progressively through education and the use of reason.²²

The 18th century, known as the “Age of Reason” or the “Age of Enlightenment,” bred a philosophical, cultural and political movement in the Western world that tried to institute the law of reason in all areas of life. It became a conflict between religion and the enquiring mind that wanted to know and understand through reason based on evidence and proof. The Enlightenment aimed at a future for humanity that was characterized by sober rationality, scientific investigation, improved technology, universal peace and the progressive improvement of people's lives, both in terms of physical comfort and intellectual sophistication. The function of reason was to control desires through an independent determination of what is right and good. Reason was supposed to protect the morally free mind of the individual from the pressures of a hostile, chaotic, evil reality.²³ Individualism appeared in the Renaissance, and during the Enlightenment, individualism, freedom, and change replaced community, authority, and tradition as core values.²⁴ A century later during the last quarter of the 19th century, individualism became incorporated into political systems in the West, placing emphasis on rights of individuals in society. This individualism dealt with ‘negative liberties’ or ‘freedom from’ something, such as freedom from government control. At the turn of the 20th century, a progressive movement appeared emphasizing equality above individual

achievement. The progressive movement emphasized ‘positive liberties’ or ‘right to’ something (usually provided by the state), such as the right to education or right to fair priced utilities.²⁵

Immanuel Kant (1724-1804) proposed that valid ethical rules and standards could not come from outside a person, but had to originate from a person’s own active reason. A truly moral person, according to him, cannot passively accept the prevailing customs, direction from an external authority, or even the deeply felt impulses of his or her own non-rational intuitions or spontaneous reactions. A moral person has to determine rationally and for himself or herself what is right and wrong; a moral person has to be autonomous, or to live by one’s own laws. This self-determination could easily be understood for egoism or self-centeredness. Kant avoided the anti-social implications of certain kinds of individualism by designing a system of ethics which emphatically defined human beings as rational beings, and which explicitly made the consideration of the interests of others an integral part of being rational. Emotional individuals tend to be narrow-minded and self-centered. When the individual is not rational, reason can make a person anti-social, as they apply their intelligence in pursuit of gratification of strictly personal desires.²⁶

What ultimately and abruptly killed the Enlightenment, however, was the French Revolution. Begun with the best intentions by French citizens inspired by Enlightenment thought, the revolution attempted to implement orderly representative assemblies but quickly degraded into chaos and violence. Many people cited the Enlightenment-induced breakdown of norms as the root cause of the instability and saw the violence as proof that the masses could not be trusted to govern themselves. Nonetheless, the discoveries and theories of the Enlightenment philosophers continued to influence Western society for centuries. All who had been frightened by the violence of the movement were inclined to blame it on rationalism, materialism and individualism. The old political order of Europe was, to a considerable extent, restored at the Congress of Vienna after years of fighting and revolution.

Romanticism was a revolt against the political ideas of the Enlightenment and Industrial Revolution. It was a reaction against the intellectualism of the 18th century, including the scientific rationalization of nature. Romanticism became a significant force in the early 19th century and radically changed the way people perceived themselves and the state of nature around them. The person listens more intently to the individual conscience than to the demands of society, and prefers rebellion to acceptance. Romanticism allowed people to get away from the constricted, rational views of life and concentrate on an emotional and sentimental side of humanity. The Romantics attacked the Enlightenment because it blocked free play of emotions and creativity.²⁷

In the 19th century two important philosophers reacted against the “impersonal” rationalism of the Enlightenment and stressed the importance of the individual. Søren Kierkegaard (1813-1855), the “father of existentialism” believed one must choose one’s own way without the aid of universal objective standards. Against the traditional view that moral choice involved an objective judgment of right and wrong, existentialists argued that moral choice involved subjective judgment of right and wrong. This subjectivity involved passionate individual action in deciding questions of both morality and truth which included that personal experience and acting on one’s own convictions were essential at arriving at the truth. These feelings led to the idea that people have to

create their own values in a world in which traditional values no longer governed. Existentialism insists that choices have to be made arbitrarily by individuals, who thus create themselves, because there are no objective standards to determine choice.²⁸ Friedrich Wilhelm Nietzsche (1844-1900), a German philosopher, challenged the foundations of traditional morality and Christianity. Nietzsche believed reason could distort our perception of the world and falsify the evidence of our senses. The only real world is the world apparent to our senses. Genuine autonomy means freedom from all external restraints on one's behavior. In this state of existence each individual human being lives a life without the artificial limits of moral obligation. For Nietzsche this entailed rejection of traditional values, including the Christian religion.²⁹

The invention of useable electricity, cheap steel (using the Bessemer converter), and petroleum products during the 19th century led to a second industrial revolution (1865-1914), that featured the growth of railways and steam ships, faster and wider means of communication, and inventions with names we all know today. It was economic growth driven by the growth of useful technology. During the second industrial revolution it became apparent that the free market system could not supply all the answers. Governments stepped in to provide railroad gauges, electricity voltages, layout of type writer key boards, and other forms of standardization. Many considered that rationality and scientific discoveries were driving progress. Industrialization embodied the progressive triumph of reason over nature, making possible the march of civilization and the moral triumph of reason over animal instinct.³⁰

John Stuart Mill (1806-1873), a British philosopher and economist, proposed that the foundation of all morality was the principle that one should always act so as to produce the greatest happiness of the greatest number. His other main principle claimed that the only time "power can be rightfully exercised over any member of a civilized society, against his will, is to prevent harm to others."³¹

Herbert Spencer (1820-1903), an English philosopher, believed that society was evolving towards increasing freedom of individuals and held that government intervention ought to be minimal in social and political life. Spencer believed an individual had the right to do anything, except interfere with another man's rights. This included the right to ignore the state. Pleasure was the main driver and supplied the motivation to take part in life and advance ideas. He warned government could get in the way of these motives for action, with coercion. Less government would mean less coercion or control, which would mean less taxpayer-funded state enforced charity, allowing one to pursue one's own interests. He claimed that by pursuing one's own ends, while adhering to the principle of justice, a person would unintentionally benefit others. When properly understood, human interests would be so interdependent that a person could not truly pursue his own welfare without giving others their due.³² The concept of 'survival of the fittest' antedates Darwin's theory of evolution. Herbert Spencer created the theories of 'survival of the fittest' that became popular amongst industrialists as it justified paying men and women low wages for long hours of work in their factories. This was social Darwinism, and had nothing to do with Charles Darwin.

From about 1850 to 1914, an international economy managed by Great Britain existed, resting on free trade and open capital market, reliant on colonies and developing areas as resource bases and consumers in advanced nations. By the twentieth century, the United States had begun to replace Britain's colonial and trans-Atlantic systems of free

trade and government-run transportation and communication networks. The new form of organization was a structured but open economic system of private enterprise and business-friendly public support for access to foreign markets, inventions, immigration, and adherence to international law. Private enterprise could export and produce abroad, as well as the fruits of America's leadership in technology and intellectual property. People and ideas could move easily, facilitating the outward diffusion of America's political ideals and cultural values. America practiced an informal imperialism in which investment and trade accompanied missionaries and, on occasion, the military, that gradually superseded British industrial and agricultural power. By the 1920s, the US had achieved naval parity with Great Britain.³³

Modernity at the turn of the 20th century relied on reason and science as the answers to the world's problems and for ongoing progress. Many believed there would not be serious war because of the application of reason. In 1890 when Kaiser Wilhelm came to power, he engineered to have Chancellor Bismarck fired. Subsequently, the chancellor's successors neglected renewing an understanding with Russia (both powers were to stay neutral if the other was at war). This collapse of alliances changed the power structure in continental Europe, allowing an event like the assassination of Archduke Francis Ferdinand to escalate to war. The Emperor Franz Josef, Czar Nicholas II and Kaiser Wilhelm were crippled by an insane sense of personal entitlement. They exercised their prerogatives to start a war.³⁴ World War I and its consequences exposed the shortcomings of the viewpoint that knowledge and science could solve all problems.³⁵

The sixty years prior to the First World War is known as the first globalization era. Investment money and people moved freely around the world. The war had devastating effects on this world economy. Archduke Franz Ferdinand, heir to the Austrian throne was assassinated on 28 June 1914, and less than a month later Niall Ferguson noted:

“When investors belatedly grasped the likelihood of a full-scale European war, however, liquidity was sucked out of the world economy as if the bottom had dropped out of a bath... Bond and stock prices began to slip as prudent investors sought to increase the liquidity of their positions by shifting into cash. European investors were especially quick to start selling their Russian securities, followed by Americans. Exchange rates went haywire as a result of efforts by cross-border creditors to repatriate their money: sterling and franc surged, while the ruble and dollar slumped. By 30th of July panic reigned on most financial markets.”³⁶

The crisis of 1914 resulted in the closure of the world's major stock markets for almost five months. For the London Stock Exchange, nothing like this had happened since its founding in 1773. The interventions implemented across many countries included moratoria on debts, emergency money issued by governments, and bailouts for the most vulnerable institutions. Critics of the time noted “the release of bankers... from all liability.”³⁷

At the beginning of the 20th century, Europe reigned over the rest of the world. In terms of economic and military power, Europe was unrivalled, pioneering developments in the fields of science, literature and the arts. Before the Great War it was believed that no one would fight a war as the costs were too high. At its start, the Great War of 1914-1918 began with high hopes on both sides. Industrialization introduced the mass

production of weapons of warfare: machine guns, modern artillery, and airplanes. By September 1914, both sides were locked into the Western front which barely moved for four years. It was 19th century warfare of ineffectual battles with huge number of casualties on both sides.

On the first day of the Somme offensive the British lost 60,000 casualties – a great majority to machine gun fire (the German army went into the war with a superior number of machine guns). Over the four years there were ten million soldiers killed, an average of 6,000 a day, every day. This was the horror of trench warfare, making it one of the bloodiest wars in history. Britain had twice as many military deaths in the First World War than in the Second World War.³⁸

The view that mankind was making slow and steady progress came to seem ridiculous in the face of senseless slaughter. The war struck a low blow at European self-confidence and pretention to superior civilization. World War I marked Europe's decline; even when the war was over, an economic crisis remained. Attempts to resuscitate the world economy after the war's end failed. International trade, investment, and migration all collapsed. The severe war repatriation payments and economic instability in the 1920s in Germany set the stage for the Nazis to take over power. The global economy effectively disintegrated with the onset of the Great Depression.

Ayn Rand immigrated to US from Russia in 1926 and knew first hand many aspects of communism. Rand applauded American values of rational egoism and individualism. For Rand, the only moral social system was laissez-faire capitalism. For her one does not exist as a servant or slave to others. It was about self-responsibility – it was up to each one of us to determine what values our lives required, and how best to achieve those values. Rand declared self-interest, properly understood, as the standard of morality, and selflessness as the deepest immorality. She brought together reason and ethics. Self-interest rightly understood also entails self-responsibility: one's own life is one's own and so is the responsibility for sustaining and enhancing it. Rational self-interests are not whatever one happens to feel like; reason takes into account all factors one can identify, projects consequences of potential causes of action, and adopts principles, and policies of action. Rand described who benefits from a person's actions:

“To be selfish is to be motivated by concern for one's self-interest...

Selfishness entails: (a) a hierarchy of values set by the standard of one's self-interest, and (b) the refusal to sacrifice a higher value to a lower one or to a non-value... Because a genuinely selfish man chooses his goals by the guidance of reason –and because of the interests of rational men do not clash, other men may often benefit from his actions. But the benefit to other men is not his primary purpose or goal, his own benefit is his primary purpose and the conscious goal directing his actions.”³⁹

Many of the concepts of her ethics supporting 'laissez-faire' were consistent with ideas expressed by Herbert during the previous century.

Ayn Rand organized her ideas into objectivism, which is the blending of free markets, reason and individualism. Rand was a successful and widely read author who introduced the idea of individual liberty and free markets in her novels. Her writings support the capitalist system while attacking the socialist model under communism. In the 1960s she further developed the concepts from her novels in a collection of articles in *Capitalism: The Unknown Ideal*. One concept discussed was the 'aristocracy of pull.'

This described a new group of powerful men who have reached their status not by means of talent or initiative, but by means of political connection. Rand declared that strong centralized government controlling all the affairs, including industrial and commercial, is fascism.⁴⁰ In America it would not be militant, but rather the collapse of the existing system. She stirred up fear that anytime the government of the US attempted to control industry or the banks was consistent with fascism. This concept remains very popular in the 21st century among conservative libertarians defending small government and minimal regulation.

During the Cold War, when Rand dominated the best-seller lists, her appeal was twofold. First, she made a stirring moral defense of free-market capitalism at a time when planned economies, whether in the communist East or the liberal West, were almost universally seen not simply as more efficient, but more just. For Rand, advocacy of free society meant advocacy of capitalism. Secondly, Rand celebrated individualism in a mass age, when the control mentality and fear of the bureaucratization and structuring of American life was at its highest. Many credit her for inspiring young people to explore libertarian ideas.⁴¹ From Rand's writings, western economists found a philosophy they could apply to "the free market" system during the Cold War. Ayn Rand, along with Friedrich Hayek (1899-1992) and Milton Friedman (1912-2006), was highly instrumental in attracting generations of individuals to the libertarian movement. Libertarians believe that each person owns his own life and property, and has the right to make his own choices as to how he lives his life, as long as he respects the same right of others to do the same. Libertarians wish to help individuals take more control over their lives and take the state out of private decisions. Conservatives hold that shared values, morals, standards, and traditions are necessary for social order while libertarians consider individual liberty as the highest value.⁴²

"Objectivist" ethics are reason, purpose and self-esteem with their corresponding virtues being rationality, productiveness and pride. Nathaniel Branden noted that a man with proper self-esteem is a man in love with himself and his life. Rand believed self-esteem is the consequence of expression, and the reward of a mind fully committed to reason. Self-esteem is a value that can be maintained only by action, Branden claimed:

"The hallmark of...control is self-esteem. Self-esteem is the consequence, expression and reward of a mind fully committed to reason. Reason, the faculty that identifies and integrates the material provided by the senses, is man's basic tool of survival. Commitment to reason is commitment to maintenance of a full intellectual focus, to the constant expansion of one's understanding and knowledge, to the principle that one's actions must be consistent with one's convictions, that one must never attempt to fake reality, that one must never permit oneself contradictions – that one must never attempt to subvert or sabotage the proper function of consciousness."⁴³

A man's self-esteem encourages him to seek growth. Rand claimed capitalism creates the optimal social conditions leaving man free to think, act, produce, and reward effort and achievement and penalize passivity.

Individualism is a central component to objectivism. Branden claimed individualism was valid because,

“An individualist is, first and foremost, a man of reason. It is upon the ability to think, upon his rational faculty, that man’s life depends; rationality is the precondition of independence and self-reliance...Man needs knowledge in order to survive, and only reason can achieve it; men who reject the responsibility of thought and reason, can exist only as parasites on the thinking of others. And a parasite is not an individualist.”⁴⁴

Nathaniel Braden broke with Rand, moved to California and became part of the self-esteem pop movement that was developing in the 1960s. Amongst this California pop culture appeared Assemblyman John Vasconcellos (1932-2014), an unorthodox thinker, who ‘discovered’ the importance of self-esteem. It was a psychological trait that was going to address all of society’s woes.⁴⁵ He lobbied the California government to set up a study to evaluate the role of self-esteem in the community. Governor George Deukmejian (born June 6, 1928) set up a task force on self-esteem, personal and social responsibility. Vasconcellos argued that raising self-esteem in young people would reduce crime, teen pregnancy, drug abuse, school underachievement and pollution. At one point, he even expressed the hope that these efforts would one day help balance the state budget, a prospect predicated on the observation that people with high self-regard earn more than others and thus pay more in taxes. Along with its other activities, the task force assembled a team of scholars to survey the relevant literature. The results appeared in a 1989 volume entitled *The Social Importance of Self-Esteem*, which stated that “many, if not most, of the major problems plaguing society have roots in the low self-esteem of many of the people who make up society.”⁴⁶

There was a belief at the time that all new ideas in education appeared in California. Within a few years these ideas that supported the importance of self-esteem spread across North America. Self-esteem became a movement with broad societal effect. Education departments adopted this mantra. The world will be saved from crime, drug abuse and under-achievement through bolstering self-esteem. Accordingly, school systems lowered educational standards to protect children from failure. The corollary, that low self-esteem lies at the root of individual and thus societal problems and dysfunctions, has sustained an ambitious social agenda for decades. Indeed, campaigns to raise people’s sense of self-worth abound. From the 1970s to the 1990s, the cult of self-esteem thrived in the school system. Rights replaced responsibilities. Self-criticism, self-denial, self-control, self-sacrifice were no longer in vogue. Self-expression, self-assertion, self-indulgence, self-realization and self-approval, all which blend into self-esteem, became important.⁴⁷ Supported by mass culture, teachers imbued with attitude led the following visions: “Being myself makes self-discipline unnecessary,” and “I have a right to my opinion, so my opinions are right.”⁴⁸ This coincided with the rise of individualism. As a consequence of the cult of individualism, everyone strived to be different, to be original or to stand out from the crowd. In the extreme, this meant feeding their narcissism. Creeping traits of narcissism can affect the way a person responds to his/her country, community, church and/or friends.

In the 21st century, many are desperately searching for individualism. This includes consumerism and virtual reality narcissism. The self-esteem movement has created a population with an exaggerated sense of entitlement. The world viewed from an emotional rather than a rational perspective allows personal feelings to override the distinction between right and wrong. Another aspect of self-centeredness is self-

tolerance. Such individuals learn to tolerate their errors and personal flaws and come to accept themselves as okay. They feel justified in asserting themselves, defending their perceived rights. Under the cult of self-esteem, people make decisions based on emotions and desires. Entitlement is part of their belief system – they believe they deserve special treatment. They lack respect for authority and habitually lie to people. With self-tolerance, individuals tolerate errors and flaws in their actions, which led to a sense of entitlement, the feeling that one deserves something, whatever it may be, regardless of what one may or may not have done to earn it. Students demand better grades than they earn.⁴⁹

Objectivism, the philosophy developed by Ayn Rand during the Cold War, blends free markets, reason, and individualism. Rand adopted many of Aristotle's ideas, including the belief that humans use reason to decide how to survive and what action to take to survive. In her system, rational self-interest produces a drive for productivity and trade. Objectivism supported laissez-faire economics and a system of minimal government, along with decreased regulation and low taxes. The ideas of Ayn Rand went main stream in the 1980s. The media and advertisers created a milieu in which the cult of self-esteem and extreme individualism thrived, and now, individualism is an important aspect of the work place. Individualism fueled the American Dream – the hope for a better quality of life and a higher standard of living than their parents had.

Individualism was established as a Western value during the Enlightenment. During the 19th century there was reaction to many of the values of the enlightenment, except individualism. Romanticism supported the individual listening more intently to his conscience (emotion) rather than the (rational) demands of society. Existentialism stressed the importance of the individual, people had to create their own values, as traditional values were no longer the standard. Nietzsche claimed that individual freedom required freedom from all external restraints on one's behavior. Herbert Spencer believed the individual had the right to do anything except interfere in another man's rights. Ayn Rand championed the American idea of rational selfishness and individualism. By the end of the 20th century, individualism, happiness and capitalism were part of the core values of Western culture. The self-esteem movement created a milieu for extreme individualism. In the culture of extreme individualism, such an individual does not find a way of life based on reason. The culture of extreme individualism ushered in the narcissism that influenced decision-making and accountability. Following three decades of the cult of self-esteem, individuals in the financial services industry, with self-tolerance and a sense of personal entitlement leveraging the market, brought chaos on the world financial system. They possessed a sense of personal entitlement no different than the czar and emperors who plunged the world into chaos in 1914. In one instance, the markets were disrupted by the uncertainties of a global war and, in the other instance, investors lost confidence with the uncertainties created by an overleveraged market created with opaque investment tools, triggering a burst of the housing bubble. Reason was absent during the decision-making associated with both of these occasions.

Chapter 2

The Rise of Objectivism

At the conclusion of World War II, there were two superpowers remaining: the capitalist US and the communist USSR. The Cold War, the name given to the relationship that developed primarily between the US and the USSR after World War II, dominated international affairs for decades and many major crises occurred – the Cuban Missile Crisis, Vietnam, Hungary and the Berlin Wall being just some. For many the growth in weapons of mass destruction was the most worrying issue. Initially events seemed to be turning the tide in favor of Soviet expansion and the spread of communism: Soviet-style governments were established in central Europe (1947-48), the Communists won the civil war in China (1949), and North Korea invaded South Korea (1950).

In Europe, and even in the United States, the Soviet Union drew admirers not only for its leading role in the defeat of Nazi Germany but for its impressive achievements in education and industrialization. In the eyes of the West, czarist Russia had long represented the most brutal and regressive form of tyranny. Most Russians were mired in ignorance, poverty and a political economy that lagged behind the West. This appeared to change dramatically after only a few decades of communist rule. Because it was an anti-capitalist force, Soviet communism was almost, by definition, opposed to the political systems of the United States and Western Europe. Thus, without expending much effort, the Soviet Union could lay claim to the mantle of anti-imperialism and national liberation. From Asia to Africa to Latin America, communism offered a fast track to both modernization and independence. For people the world over who had experienced oppression at the hands of Western colonialism and capitalism, communism seemed the wave of the future.⁵⁰

Western governments understood that the Soviets were trying to organize communism as a worldwide movement, under the direction of the Soviet Union. It was a decades long era of political maneuvering for international support, behind the scenes

military assistance for allies and satellite nations that pitted capitalist US against communist Soviet Union. Mutual suspicion, augmented by profound distrust and misunderstanding fueled the conflict. The Cold War dominated foreign policy agendas of both sides and led to the formation of two vast military alliances: the North Atlantic Treaty Organization (NATO), created by the Western powers in 1949, and the Soviet-dominated Warsaw Pact, established in 1955. Although centered originally in Europe, the Cold War enmity eventually drew the United States and the USSR into local conflicts in almost every quarter of the globe. Both sides wanted to avoid direct military action because of the threat of mutual nuclear destruction.⁵¹

While the confrontation and competition of two antagonistic economic systems was an integral part of the Cold War, the fight was played out in the realm of trade and social policies. They also used proxies to support their beliefs. The ‘fight’ for their beliefs used client states who fought on their behalf: e.g. South Vietnam was anti-communist and was supplied by America during the war, while North Vietnam was pro-communist and fought the south (and the Americans) using weapons from communist Russia or communist China. In Afghanistan, the Americans supplied the rebel Afghans after the Soviet Union invaded in 1979, therefore never physically involving themselves, thus avoiding a direct clash with the Soviet Union.

Two voices heard during the Cold War supporting capitalism were that of Friedrich A. Hayek and Ayn Rand. Hayek was an economic theorist at the University of London who later moved to the University of Chicago. In his book, *The Road to Serfdom*, published in England in 1944, he developed ideas defending capitalism while attacking socialism. His idea of socialism was based on the concept of the planned economy and inability of central committees to develop and implement economic plans. His ideas supported individualism. Hayek explains:

“The point, which is so important, is the basic fact that it is impossible for any man to survey more than a limited field, to beware of the urgency of a limited number of needs... This is the fundamental fact on which the whole philosophy of individualism is based. It does not assume, as is often asserted, that man is egotistic or selfish or ought to be. It merely starts from the indisputable fact that the limits of our powers of imagination make it impossible to include in our scale of values more than a sector of the needs of the whole society, and that, since, strictly speaking scales of values can exist in only individual minds, nothing but partial scales of values exist – scales which are inevitably different and often inconsistent with each other. From this the individualist concludes that individuals should be allowed, within defined limits, to follow their own values and preferences rather than somebody else’s; that within these spheres the individual’s system of ends should be supreme and not subject to any dictation by others. It is this recognition of the individual as the ultimate judge of his ends, the belief that as far as possible his own views ought to govern his actions that form the essence of the individualist position.”⁵²

Hayek developed points around the impossibility of any one person or committee ever being able to access, let alone comprehend, all the information required to make an informed decision in the area of the economy. Hayek claims, “Nor can a coherent plan be

achieved by breaking it up into parts and voting on particular issues...An economic plan, to deserve the name, must have a unitary concept....As a strategy it would become inevitable to delegate the task to experts.”⁵³ This type of planning takes you down the road “whereby a democracy that embarks on planning progressively relinquishes its powers.”⁵⁴ After Hayek’s arrival, a strong message supporting capitalism was associated with the economics department at the University of Chicago.

Ayn Rand derived many concepts of Objectivism from Aristotle’s ideas. Aristotle (384-322 BCE), one of the greatest philosophers of all time, believed that humans use reason to decide how to survive, and what action to take to survive. Aristotle thought that humans could know reality through sense perception and using reason to decipher what was around us. As an individualist, he thought that the purpose of man is to live life most proper to a man, to live happily. To live properly, a man must find the knowledge and action that he rationally discovers to further his own life. This very basic description of the philosophy of Aristotle provided the individualistic basis of objectivism.⁵⁵

Soviet Marxism described Western capitalism as unfair and exploitive, controlled economically and politically by big business and big finance, and subject to economic depression and unemployment. Communism was going to bury capitalism. The launch of the Russian satellite, Sputnik, in 1957 had many in the West wondering if advances in science reflected the strength of the collective system. The technology challenge triggered the race to the moon. Rand’s philosophy, known as objectivism, involves the rejection of moral codes that condemns selfishness as the ultimate evil and holds up self-sacrifice as the ultimate good. Objectivism claims that all knowledge comes ultimately through the rational interpretation of the evidence of the senses by an individual, for that individual. The ethics of objectivism holds that each individual’s life and happiness is the proper purpose of morality. Ayn Rand claimed that freedom was not based on majority rights, but on individual rights.⁵⁶ She considered objectivism a philosophy to support capitalism.

John Locke believed that individuals had the ‘natural rights’ of life, liberty, and property. It was the government’s responsibility to protect them. Rand turned to Locke for the same ideas on individual freedom that the founding fathers adapted. Locke’s signal statement, “... no one ought to harm another in his life, health, liberty, or possessions”⁵⁷ became an important aspect of objectivism. This idea lends support to a capitalist or free market system in which the free individual uses his time, money, property, as he sees fit. Rand claimed, “The government was set to protect men from criminals and the constitution was written to protect man from government.”⁵⁸ Interestingly, Locke’s ideas applied to only 10% of the population in Britain at the time of his publication and, 300 years later at the end of the 20th century, objectivism, which borrows heavily from many of the same ideas of Locke, was working for less than 10% of the population of the Americas.

Rand also adapted other ideas from Locke. These include individualism as a positive force and the idea that when everyone is born, his or her mind is a blank slate, and through one’s choices and actions, one acquires his own character traits and habits. Through one’s experiences one can acquire good habits, or bad habits. Rand explains some people had made mistakes during their development and acquired bad habits. Your choices in life determine who you become. The dilemma of this philosophy is it pits self-interest against morality. It appears that acting with the interests of others would be

sacrificing one's self-interest. As conflicts of interest are fundamental to the human condition, it takes ethics to be the solution.

Rand claimed "Altruism is incompatible with freedom, with capitalism and individual rights. One cannot combine the pursuit of happiness with the moral status of a sacrificial animal."⁵⁹ Those undermining rights have switched the concept of rights from the political to the economic realm. She claims:

"If some men are entitled by right to the products of the work of others, it means those others are deprived of rights and condemned to slave labor...Any alleged 'right' of one man, which necessitates the violation of rights of another, is not and cannot be a right...No man can have the right to impose an unchosen obligation, an unrewarded duty or an involuntary servitude on another man. There can be no such thing as 'the right' to enslave."⁶⁰

Conservative libertarians still embrace these ideas developed five decades ago to counter communism and use them to deny an individual's right to medical care, homes, jobs and food – the same position of Rand.

As Ayn Rand developed her philosophy, she attacked many of the aspects of the philosophy of Kant, one of the leading philosophers of the Enlightenment. She stated that objectivism is entirely opposite of the philosophy of Kant. Rand detested Kant's philosophy which basically held that humans are incapable of knowing reality. For Rand, freedom of choice, liberty and ownership of property led to happiness, which was at the centre of objectivism. The ethics of objectivism holds that each individual's life and happiness is the proper purpose of morality. For Kant, freedom of choice provided the free will that was essential to morality. There could be no morality if man did not have freedom of choice. Objectivism is a philosophy of rational individualism, a reality held together by science and common sense. Reason implies harmonizing our thinking minds and our feelings so that our emotions reflect our rational judgment. To live by reason one should never deny a fact, and one should always strive to integrate together the facts one is aware of – however uncomfortable, irrational, or unintuitive they may be. A commitment to reason underlies the objectivist commitment to moral integrity; a rational person makes choices for the long term, takes account of the full context, and acts consistently on the basis of objectively proven principles.⁶¹

In the 18th century when Adam Smith (1723-1790) laid out the basics of classical economics, his work was popular because it provided an 'ethical' rationale for the capitalist system that explained how when one acted in his own interest it actually helped someone he did not even know. The self-interest of objectivism taps into this same rationale developed by Smith. Rand's answer to most questions relied on humans being rational and being able to produce ever-abundant food and alternate resources to answer challenges. She made a moral case for individualism and liberty through her novels.

In her introduction to *Capitalism: the Unknown Ideal*, Rand provides this description of objectivism:

"Objectivism is a philosophical movement; since politics is a branch of philosophy. Objectivism advocates certain political principles – specifically those of laissez-faire capitalism – as the consequence and practical application of its fundamental philosophical principles. It does not regard politics as a separate

or primary goal, that is: as a goal that can be achieved without a wider ideological context.”⁶²

Rand went on to claim, “our primary interest is not politics or economics as such, but ‘man’s nature and man’s relationship to existence’—and that we advocate capitalism because it is the only system geared to the life of a rational being.”⁶³ Her effort focused on developing a system that would support capitalism and protect it from enemy attacks as well as the unstructured support from apologists. During the Cold War it was a fight to save civilization – the struggle between capitalism and statism. Statism, Rand claimed, is the political expression of altruism, which holds that man’s life and work belong to the state – to society, to the group, the community, the nation – and that the state may dispose of him in any way it pleases for the sake of whatever it deems to be its own tribal, collective good. It is based on a government having unlimited power to legally manipulate disarmed citizens.

Rand believed that alleged champions and poorly informed apologists fail to understand the significance of the clash between capitalism and altruism. Their explanations try to make a moral justification or essence of capitalism as “service to others” – the consumer. In this system consumer’s wishes are the absolute edicts ruling the free market. This is wrong, Rand claims; “...capitalism’s essence and greatest virtue is a system based on the recognition of individual rights – on man’s rights to exist and to work, for his own sake – not on the altruistic view of man as a sacrificial animal.”⁶⁴ Rand was concerned that the more apologists advertised the virtues of capitalism over socialism, the less the world liked the US. Rand was ahead of her time in understanding the need to counter worldview with a philosophy that supports capitalism.

When Ayn Rand wrote *Capitalism: The Unknown Ideal*, industry and manufacturing was the most important part of the free enterprise of the US. Rand noted that an important distinction on political power is “a government holds a legal monopoly on a physical force.” [and] “If a society is to be free, its government has to be controlled.”⁶⁵ She explained, “Capitalism is a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.”⁶⁶ By capitalism Rand meant an unregulated laissez-fair system. For those who blamed social problems on ‘economic power’ and the ‘selfish greed’ of businessmen, Rand observed, “All the evils, abuses and inequities popularly ascribed to business men and to capitalism, were not caused by an unregulated economy or by a free market, but by government intervention into the economy.”⁶⁷ In 2008 the financial industry and debt packaging had become a significant player of the market place, and industrialism had become a lesser force. Debt packaging was an important part of the business of Wall Street. The decision-making of a few players in this system created chaos that spread quickly throughout the world financial system. The market was brought to its knees by the mortgage crisis and subsequent lack of confidence in the financial system. Even though the market landscape has changed significantly since her book was written, critics of the economic crisis embrace the ideas of objectivism developed to defend the free market system of the industrialist from communism.

In 1964, Khrushchev was deposed and replaced by Leonid Brezhnev. The Soviet retreat over Cuba had disturbed the new Soviet leaders. Throughout the 1960s and 1970s, the Soviets initiated a massive arms build-up. Soviet military forces would become capable of intervening throughout the world. The modest liberalization that had occurred

during Khrushchev's reign was ended. Attempts to reform/democratize communism in Eastern Europe were crushed. Brezhnev faced challenges to Soviet control of Eastern Europe; he responded with the Brezhnev Doctrine.

Communist rule was being questioned throughout Eastern Europe in the late 1960s, however, the Soviets were not prepared to relinquish their control over the region. In response to the political reforms carried out by the Dubcek government in Czechoslovakia, Soviet-led Warsaw forces occupied that nation. The Brezhnev Doctrine called for the intervention of Soviet forces in any Eastern European nation in order to maintain the communist status quo. Throughout the 1970s, the ruling elite of the Soviet Union seemed secure. This security was not based on a thriving economy. Low productivity characterized the Soviet economy of the 1970s, and the country needed to import large amounts of wheat from the West despite controlling some of the richest farmlands of Europe.

Ronald Reagan is given credit for the collapse of the former Soviet Union which happened on his watch. In fact, it was due to a combination of things. The Russians were unable to keep up with expenditures in the arms race triggered by the challenge of "space wars". At the same time, the Russians tried overnight to introduce American type economic changes to their economic system, that failed miserably, because they received poor advice from visiting American economists. At the same time there was a drop in the price of oil, which affected revenue the country required to maintain its management infrastructure. Its collapse was hailed, by the West, as a victory for freedom, a triumph of democracy over totalitarianism, and evidence of the superiority of capitalism over socialism.

The conservative media continue to espouse many of Rand's ideas. Ayn Rand stated "capitalism is not a system compatible with government controls."⁶⁸ In *The New Facism: Rule by Consensus*, she provided the following definitions of fascism:

"...that a system in which the government does not nationalize the means of production but assumes total control over the economy is *fascism*...they never advocated or intended the socialization of private property, that they want to 'preserve' private property – with government control of its use and disposal. But *that* is the fundamental characteristic of fascism."⁶⁹

The conservative libertarians use this message today to beat back ideas on increased government regulation. Rand said, "What is missing in the mixed economy is any suggestion to limit the power of government."⁷⁰ This group, Rand claimed, attacks the advocates of freedom. The leader of a mixed economy is not expected to have a specific program or policy. These leaders only want a blank check on power. Things are run by the lobbyists, and everyone is supposed to understand and endorse, but never mention. Then the politician's job is to hold the power and dispense the favors. There is a price to be paid by only looking at each project separately, and not the big picture. Rand's philosophy of an economic system based on an unrestricted free market supports the activities of global corporations (the big picture) in the 21st century.

The message of objectivism was adopted during the Cold War to counter the propaganda threat of communism. This economic philosophy helped hold communism at bay. This meant there was no room for criticism of objectivism during its developmental period. While these ideas were compatible with globalization, the global financial system was unable to self-correct from the stress of the overleveraged market place. The 2008

economic debacle challenged the theories, including objectivism, which supported the laissez-faire system. There is now plenty of room to assess the role of objectivism in the 21st century.

Chapter 3

Ethics and Happiness

The Ancients and Ethics

People study ethics in order to improve their lives. It concerns the nature of human well-being, and is a means of deciding a course of action. Without it, our actions would be random and aimless. Socrates, Plato and Aristotle believed ethics was based on reason; there was a logical reason for behaving virtuously. Socrates and Plato thought that knowledge of virtuous behavior was enough to ensure that people followed it, and nobody did evil knowingly. Aristotle disagreed and believed that many people know the bad effects of their actions, but give into their desire anyway, because of weak will.

The birth of philosophy in ancient Greece occurred in a culture with a rich popular polytheism. It was commonly believed that the success of the community was due to the help of various deities. Socrates (470-399 BCE) did not write philosophical texts, and is known through the classical accounts of his students, such as Plato. Socrates believed that the best way for people to live was to focus on self-development rather than the pursuit of material wealth. He always invited others to try to concentrate more on friendships and a sense of true community. He spent years in public places of Athens engaging his fellow citizens in philosophical discussions. He developed a dialectic method of inquiring, known as the Socratic Method, to solve a problem by breaking it down to a series of questions and answers, which gradually distills the answer the person would seek.⁷¹

Socrates was a man of singular character and intelligence who was imbued with a passion for intellectual honesty and moral integrity. Richard Tarnas, a philosopher and cultural historian, known for his book, *Passion of the Western Mind: Understanding the Ideas That Have Shaped Our World View*, notes “Socrates insistently sought answers to questions that had not before been asked, attempted to undermine conventional assumptions and beliefs to provoke more critical thinking about ethical matters, and tirelessly compelled both himself and those with whom he conversed to seek a deeper understanding of what constituted a good life. His words and deeds embodied an abiding conviction that the act of rational self-criticism could free the human mind from the bondage of false opinion.”⁷²

Socrates believed that our true happiness was promoted by doing what is right. How one should live, and how to think clearly about how one should live, became his overriding concern. For an action to be considered a good act was not good enough because gods said it was, but was good because it was useful for us in our efforts to be better and happier people.⁷³ To Socrates, happiness was the consequence of living a life that was good for the soul. It was only through self-knowledge or understanding of one's own psyche that one could find genuine happiness. When the individual knew what was good and beneficial for him in the deepest sense, he would naturally and inevitably act in a good manner.⁷⁴ Socrates insisted that through rational reflection each individual could arrive at standards of good and evil. For the humanist Socrates, ultimate values were something that the individual could grasp through thought alone and could defend rationally. Socrates was put to death by the citizens of Athens for not worshiping the gods whom the city worshiped, introducing new divinities of his own and corrupting the youth.

Plato (437-347 BCE), Socrates' most famous student, founded the Academy in Athens in 386 BCE. Plato delivered lectures at the Academy, which became the center of Greek learning for almost a millennium. He focused on values rather than physical sciences. Plato began the discipline of ethics, the study of good and right. Through the connection between virtues and happiness, the soul was thought of as having three different aspects: irrational desires (appetite), a spirited element, and reason. In order to reach happiness a soul must be in harmony. The rational element ruled over the appetite and the spirit. Rational individuals make the right choices; a truly happy life was a rational life.⁷⁵

Plato's mentor, Socrates, had sought to know what was common to all virtuous acts, so that he could evaluate how one should govern one's conduct in life. He reasoned that if one wished to choose actions that were good, one had to know what "good" was, apart from any specific circumstances. Tarnas noted: "Because Socrates and Plato believed that knowledge of virtue was necessary for a person to live a life of virtue, objective universal concepts of justice and goodness seemed imperative for a genuine ethic. Without such changeless constants... human beings would possess no firm foundation for ascertaining true values."⁷⁶ To obtain this knowledge, Plato deemed essential, training in mathematics to support the study of philosophy.⁷⁷

Plato wrote on politics. Political justice was harmony in a structured political body. The ideal society existed of three main classes of people: producers (craftsmen, farmers, and artisans), auxiliaries (warriors), and guardians (rulers). A society was just when the relations between these three classes were right. Each group performed appropriate functions, and only that function. In this situation rulers had to rule, auxiliaries (gentlemen) had to uphold the rulers convictions and producers (masses) had to limit themselves to exercising whatever skills nature granted them.

The neoconservatives in US accept the rule of the wise as an antidote to modernity (man's capacity to transform the conditions of his existence). In their system, gentlemen are true believers of God, honor and moral imperatives. The rule of the wise is facilitated by the overwhelming stupidity of the gentlemen. The more gullible and unperceptive they are, the easier it is for the wise to control and manipulate them. The unwashed masses are not fit for truth or liberty. Because of the sheer size of the masses the wise must make decisions without discussions. In this system individual freedom must submit to the will

of the community. Neoconservatives accept Plato's concept of the Noble Lie, an untruth told by an elite to maintain social harmony. This topic is reviewed further in Chapter 10.

Aristotle (384-322 BCE) was Plato's prize student, even though he disagreed with him on many points. Unlike Plato, Aristotle did not believe students of ethics need to be knowledgeable in other fields such as mathematics or study of the natural world. For Aristotle, what actually existed was not the Idea of the Good relevant to all situations, but only a good person or good actions in many varying contexts. The proper aim in ethics was not to determine the nature of absolute virtue, but to be a virtuous person. Tarnas explained:

“For Aristotle the goal of human life was happiness, the necessary precondition for which was virtue. But virtue itself had to be defined in terms of rational choice in a concrete situation where virtue lay in the mean of two extremes. Good is always a balance between two opposite evils, the midpoint between excess and deficit: temperance is a mean between austerity and indulgence, courage a mean between cowardness and foolhardiness, proper pride a mean arrogance and abasement, and so forth. Such a mean can only be found in practice...”⁷⁸

Aristotle believed that reason was the faculty that guided us in actions, feelings, emotions and desires. Our highest good (happiness) had to involve reason.

In Aristotle's assessment, character was formed through habit. People had a natural capacity for good character, developed through practice. The capacity did not come first—it was developed through practice. Virtue was the habit of acting well. For an action to be virtuous a person had to do it deliberately, knowing what he was doing, and doing it because it was a noble action. The action had to be voluntary, since only voluntary actions could be virtuous. Proper intention was necessary for virtuous action. Intention was not a desire, a wish or an opinion. It was something previously deliberated upon, and was formed with reason or thought. Moral virtues were states of character lying at the mean between the extremes of excess and deficiency.

For Aristotle, moral virtue had to do with feeling, choosing and acting well. Rational thought was unique to the human – life of exercising rational capacity. Moral virtues were acquired by habit, such as acting justly. Virtues were excellences of character achieved by seeking the middle way, not extremes of action or feeling (discussed previously). Virtues led the individual to achieve the good life or ‘happiness’. This happiness, properly understood, required ethically virtuous activity. In turn, virtue manifested itself in action, leading to happiness. For Aristotle this included one being all he could be to fulfill his potential, and living in a way that reached his full potential. To achieve this, self-love was necessary. Aristotle described two types of self-love. For him, self-love was a proper emotion, provided it was expressed in the love of virtue and was valuable. Being noble and good promoted the good of the community. The second was the dangerous self-love in which the individual assigned material advantage and pleasure. This was the selfishness driven by individualism, where there was no evident benefit for oneself in helping others.⁷⁹

The Aristotelian legacy was predominantly one of logic, empiricism, and natural science. The Lyceum, the school which Aristotle founded in Athens, was more a centre for scientific research, and data collection than a semi-religious philosophical school like Plato's Academy. Aristotle's philosophy laid out an approach to the investigation of all

natural phenomena, to determine form by detailed, systematic work, and thus arrive at final causes. His logical method of argument gave a framework for putting knowledge together, and deducing new results. He created what amounted to a fully-fledged professional scientific enterprise, on a scale comparable to a modern university science department. In the later Middle Ages, Aristotle's work was rediscovered and enthusiastically adopted by medieval scholars. Fused and reconciled with Christian doctrine into a philosophical system known as Scholasticism, Aristotelian philosophy became the official philosophy of the Roman Catholic Church. As a result, some scientific discoveries in the Middle Ages and Renaissance were criticized simply because they were not found in Aristotle.

The Church

Augustine (354-430 CE), philosopher and theologian, was an important figure in the development of Western Christianity. He converted to Christianity in 386 CE, when Christianity had just become the state religion and Theodosius had outlawed pagan religions in the Roman Empire. Augustine used his skill sets honed as a philosopher, developed before his conversion, to counter competing viewpoints. He created over 1000 pages of writing, taking on competing view points to Christianity that included Greek and Roman philosophy, Manichaeism and Christian heretical viewpoints. His writings were responsible for uniting church thought and establishing a dogma which would unify the thinking of the church, right into medieval times.⁸⁰

Augustine's writing was affected by the events of his time, the crumbling empire and the apparent demise of civilization. Richard Tarnas, a philosopher and cultural historian, noted "The early Christians believed in the imminent end of this world, and all put their thoughts in the 'next' world... This is the Christian world view of the second coming through the apocalyptic end of history... The arrival at the Kingdom of Heaven, an event most early Christians expected would take place in their own lifetime, would eliminate material and social forms of the old order. The need to stay holy and blameless in anticipation of Christ's imminent coming was the foremost imperative for the early Christians."⁸¹ The sack of Rome by the Visigoths in 410 CE was blamed on the Christians by the nobility. The pagan Romans claimed that this new set of values and vision of Christians' history undermined the strength of Roman imperial power, and thereby opened the way for the barbarian attacks.⁸²

Augustine wrote that ultimate wisdom could not be achieved through rational thought alone. Reason had to be guided by faith. Without faith, there could be no true knowledge, no understanding. Valid ethical standards could not be formed by reason alone, but were revealed to people by the living God.⁸³ To Augustine, the source of evil was the free will of a person. In this system, the will abandons what is above, good, and turns to what is lower, lesser good or evil. God speaks to man through the Holy Scriptures. And God's Word, as revealed in the Scriptures, has, as validity, knowledge far outranking any other sort of knowledge which man might attain. Reason alone could not attain wisdom. The starting point for wisdom is the belief in God and the Scriptures. Augustine replaced primacy of reason of the classical world with the primacy of faith. The human centered outlook of classical humanism, which had been developing for centuries, gave way to a God-centered world view.

To those who believed that people have the intelligence and good will to transform their earthly city into a rational and just community that promotes human betterment, Augustine warned of human sinfulness, weakness, and failure. He reminded the optimist that progress was not certain, that people, weak and ever prone to wickedness, were their own worst enemies, that success was illusory, and that misery was the essential human reality. Tarnas noted, “The struggle with overwhelming evil was of paramount concern, making the authoritative activity of God and church mandatory.”⁸⁴

Early Christianity was primarily a religion of salvation, rather than a moral system. Man, according to medieval Christianity, must attend not to the ways of the world but to the right ordering of his soul, so that he may join his maker in eternal life. Given the medieval Christian’s view of the world, what is worth knowing? The answer is obvious: the knowledge that is most important is that which will save one’s soul. Then God must be the ultimate source of knowledge about the soul. This makes it crucial to get access to God to obtain information on how to save one’s soul. Like all good Romans, Augustine’s opinion was that education was suited only to the elite in society. Augustine developed instructions on how masses should only be catechized – that is, made to memorize the doctrines of the church without learning to understand them.

Plato accepted the Socratic identification of virtue with knowledge. Evil actions were due to ignorance or the lack of knowledge (one mistakes evil for good). In the search for fame, fortune and pleasure, Plato believed, it was not worth the sacrifice of one’s character (virtue), because when we sacrifice our character we sacrifice our ability to be truly and deeply happy.

For the Neo-Platonist Augustine, happiness must be attained by the pursuit of virtues, which means understanding as well as practicing how God wants one to live. Worship and virtue belong together with happiness; the pursuit of virtue and leading a virtuous life were the means of attaining happiness. Virtue is not external to happiness, it is integral to it.⁸⁵

Augustine explained that man’s fall was precipitated by willful rebellion against the proper divine hierarchy, pitting the values of the flesh (which includes faults of the mind as well as physical pleasures) against those of the spirit. Man could no longer rely on his rational will to determine his life, because he was unconsciously controlled by ignorance and emotional conditioning. Man was sinful because of his ignorance and emotions. In the present fallen state, Tarnas claims, freedom for man could only exist in acceptance of God’s love and liberating presence in this life. Providing the meaning of grace in this world required an authoritative church structure, within which man could satisfy his needs for spiritual guidance, moral discipline and sacramental grace.⁸⁶

By granting immortality and value to the individual soul, Christianity encouraged the growth of the individual conscience, self-responsibility, and personal autonomy relative to temporal powers supporting the development of ethical ideals of goodness and charity. In Christian ethics, it is better to suffer an injustice than to commit one, and to control the passions and appetites in the service of the good and true. Tarnas noted that Christian ethics in general have tended to stress the need for grace, mercy, and forgiveness because of human weakness.⁸⁷

With the appearance of conflicting sects and doctrines, leading early Christians concluded that the beliefs of the faithful must be established, disseminated and sustained by an authoritative church structure; this supported the development of the institutional

church. Tarnas identified “The principle occupation of medieval philosophy had long been the joining of faith with reason, so that the revealed truths of Christian dogma could be explicated and defended with the aid of rational analysis. Philosophy was the handmaid of theology, as reason was faith’s interpreter. Reason was thus subordinate to faith.”⁸⁸ The scholastics, theologians of the Middle Ages who initially applied only logic to their understanding of ‘reason’, had to include empirical observation and experiment to the scope of their analysis with the introduction of Aristotle and the new focus on the visible world.

Universities in Western Europe were originally established and supported by the Church. Eventually these universities won the right from the king and pope to form their own communities. Richard Tarnas observed, “With the University of Paris’s receipt of a written charter from the Holy See in 1215 CE, a new dimension entered European civilization, with the universities now existing as relatively autonomous centers of culture devoted to the pursuit of knowledge. Although Christian theology and dogma presided over this pursuit, these were, in turn, increasingly permeated by the rationalist spirit. It was into this fertile context that the new translations of Aristotle and his Arabic commentators were introduced.”⁸⁹

St. Thomas Aquinas (1225-1274 CE) who sought to resolve the dispute between the Averroists and the Augustians, held that reason and faith constituted two harmonious realms in which the truth of faith complemented that of reason, both being gifts of God, but reason having an autonomy of its own. Thomas Aquinas worked out a balance between reason and revelation. Tarnas describes Aquinas as a force in transformation of medieval thinking:

“The extraordinary impact Aquinas had on Western thought lay especially in his conviction that the judicious exercise of man’s empirical and rational intelligence, which had been developed and empowered by the Greeks, could now marvelously serve the Christian cause. For it was the human intellect’s permeating cognition of the multitude of created objects in this world - their order, their dynamism, their directedness, their finiteness, their absolute dependence on something more – that revealed, at the culmination of the universe’s hierarchy, the existence of an infinite highest being, an unmoved mover and first cause: the God of Christianity.”⁹⁰

The Protestant Revolution was associated with a shift from an earth-centered to a sun-centered universe – weakening the power of the established church. The social consequences of the reformation appeared in the complex relationship to economic development in the northern European nations. Tarnas explained:

“The Protestant affirmation of moral discipline and the holy dignity of one’s work in the world seems to have combined with a peculiarity in the Calvinist belief in predestination, whereby the striving (and anxious) Christian, deprived of the Catholic’s recourse to sacramental justification, could find signs of his being among the elect if he could successfully and unceasingly apply himself to disciplined work and his worldly calling. Material productivity was often the fruit of such effort, which, compounded by the Puritan demand for ascetic renunciation of selfish pleasure and frivolous spending, readily lent itself to the accumulation of capital.”⁹¹

This heralded the Protestant work ethic and the spirit of capitalism, with even the most mundane professions adding to the common good.

The break with Rome launched one of the bloodiest wars in European history (the Thirty Years War, from 1618 to 1648) in which Catholic princes sought to re-impose Catholicism on the break away states and the Protestants fought amongst themselves to determine whom of them had the one true version of an alternative to Rome. When peace was concluded, with no clear winners or losers, the principle was adopted throughout Western Europe that the ruler of any particular region would determine the religion of that region's people. The period we call the Enlightenment, which followed, marked the beginning of a turning away from religion as the basis for European life. Since people no longer agreed about religious matters, and there was no authority to rule on disputed questions, the search was on for a new authority in reason and science.⁹²

The Enlightenment and Beyond

The 18th century, the Age of Enlightenment, saw the intellectual maturation of the humanist belief in reason as the supreme guiding principle in the affairs of mankind. Through reason, the mind achieved enlightenment, and for the enlightened mind, freed from the constraints of superstition and ignorance, a whole new exciting world opened up. The 'truth,' discovered through reason, would free people from the shackles of corrupt institutions, such as the church and monarchy, whose misguided traditional thinking and old ideas had kept people subjugated in ignorance and superstition. The belief was that 'the truth shall set you free.' The concept of freedom became central to the vision of a new society. Through truth and freedom, the world would be made into a better place. The over-all ideal and goal of the Enlightenment was rational self-determination. While the ideas of the Enlightenment were the locus of thinking in the salons of Paris and Berlin, the practical application of ideas was carried out in the American colonies.⁹³

As ideas of the Enlightenment spread from one country to another, it was not unusual that they underwent significant changes. The rationalism of England of the 17th century political and social struggle was caught up with a debate between differing religious view points. Locke believed that man's possession of reason made him unique among the inhabitants of Earth. With English rationalism, there was acceptance of the natural and social order. When rationalism was transported to France, it underwent significant changes. To the French rationalist, the role of reason was more active and could actually discover and articulate the potential for order which occurs naturally in life. The French rationalists maintained that men interfered with the natural rational order of life. The arbitrary institutions and irrational rules that constituted the social order in France frustrated the rational order of nature. Once reason laid bare nature's true rational structure, men could pattern their social order after that structure. For the French rationalist, reason became a weapon to attack the monarchy and the church. Rationalism made its way from France to Germany where it underwent another transformation. German rationalism rejected the concept that natural and social order was irrational. Under German rationalism social order may and must be resisted by the individual, but it can no more be changed than can the natural order. "One can only hope, held the German rationalist, to preserve his own inner moral freedom. This view is essentially a

secularization of Luther's notion that the individual must preserve his relation to God against the pressures of a godless world in order to remain morally good. "German rationalism merely transformed the dictates of God into the dictates of reason," noted Harold J. Foster, in *An Outline of European Intellectual History: Locke to Hegel* (1969).⁹⁴ The function of reason was to propound moral, right structures, and to hold them up against an unrighteous, disordered world. Reason would ensure the progress of humanity and the entire society.

The Enlightenment was an intellectual movement marked by an intense interest in social progress, reason and the birth of social science. Reason played a major role in exposing the inadequacies of the existing regime. William Godwin (1756-1836), philosopher and novelist, whose work *Political Justice*, stated that men were reasonable and impelled by reason to live justly and that they became bad only on account of the corrupting forces of institutions. This led some to consider doing away with institutions as a solution. During the Renaissance, humanist thinkers looked backwards to the ancient Greeks and Romans. Thinkers of the Protestant Reformation were mainly concerned with saving souls from sin. To enlightened thinkers, it did not make sense to look back at antiquity or search for answers in a book that had no real scientific basis. In order for society to improve, people had to look forward to progress and change. The only way to do that was through careful scientific reasoning, and thought.⁹⁵

In the 18th century when Adam Smith (1723-1790), social philosopher and economist, laid out the basics of classical economics, his work was popular because it provided an 'ethical' rationale for the capitalist system that explained how, when one acted in their own interest; it actually helped someone he did not even know. Smith posited that rational self-interest, informed by moral judgments based on fairness and justice, would lead to promoting the best interests of society guided by the 'invisible hand' of the market place. Through his writings on monopolies, he may be the most powerful critic of the present system of concentration of wealth and oligarchies. The financial crisis that started in 2007 resulted, in large part, from unethical conduct, including making home mortgage loans when financial institutions knew (or should have known) that borrowers were not qualified – a fact that was ignored (or overlooked) so that these institutions could earn large fees from closing and other transaction costs.⁹⁶

How many people really think and believe independently in peer pressures and social coercion? In order to have morality, Kant believed we need free will. If you can't make choices how can you be responsible? If you are not responsible for anything you do, like an animal or a robot, then what you do is neither bad nor good. Kant claimed, "Duty is the necessity to act out of reverence for the law."⁹⁷ The ultimate principle of morality must be a moral law conceived so abstractly so that it is capable of guiding us to the right action in application to every possible set of circumstances and can be applied at all times. Right actions are those that practical reason would will as a universal law.

The center piece of Kant's ethical system is his 'Categorical Imperative' function to test whether any particular judgment is morally correct or not. It reads: "Act only according to that maxim by which you can at the same time will that it should become a universal law."⁹⁸ Kant avoids the anti-social implications of certain kinds of individualism designing a system of ethics which emphatically defines human beings as rational beings, and which explicitly makes the consideration of the interests of others an integral part of being rational. This ethical system is individualistic because it falls on the

individual to decide what is right or wrong. It is individualism embedded in a community of individuals who are all autonomous and equally beholden to the considerations and interests of others. It does not mean that reasoning can satisfactorily solve all moral problems. This system will not function if the individual is dependent on another. Combining free will and reason creates the capacity for free choice. A corollary to the universal law is Kant's principle that we must always treat human beings as ends rather than as means to our own ends.

For Kant, free will was essential to morality. There could be no morality if man did not have freedom of choice. Kant perceived his goal to put in place a system to activate free will. This, in turn, set in motion the potential for individuals to realize their moral worth. A requirement was not to be submissive and not to be a tool of another, but exert your free will in the world. For Kant, the mores of a society are customary rules of behavior, which have some moral content to them. Following mores is not the same thing as being truly moral. Being truly moral consists of following the dictates of one's conscience. When one followed mores, he puts himself in a submissive position. Even if the action enjoined by mores, one followed good actions, one was not truly being moral. One was simply doing good because it was fitting to do so in society, not because one's conscience told one to do so. Mores are not enough. They are historical and relative to time and place, not universal. Mores have value but not worth. Everything has either a value or a worth. What has value has an equivalent that can replace it. What has worth cannot be replaced by anything; it has no equivalent. True morality has worth. Morality, Kant says, "is the condition under which alone a rational being can be an end in itself,"⁹⁹ an autonomous end. Following your dictates of conscience is what gives dignity and worth to the individual.

The 19th century saw many challenges to the ideas from the Enlightenment. Plato assured us that reason (ego) could control our worst impulses; Freud brought forward evidence of the existence of unconscious forces determining man's behavior and conscious awareness. The revelation that below or beyond the rational mind existed an overwhelming repository of non-rational forces undermined the idea that reason could be used to establish an authoritative system of government and ethics, etc. This meant man was now constrained to live in an eternal struggle with his own nature, and that human reason, the characteristic identified that separated man from rest of animals, was a recent concept.¹⁰⁰ Freud claimed that the deepest essence of human nature consists of instinctual impulses (in their unconscious) which society condemns as evil. He claimed there exists a dynamic balance between the individual and society, created by a deep-rooted psychic ambivalence that cannot be rationally controlled. While "evil impulses" may temporarily be held in check, suppressed and repressed, they can never be permanently eliminated.¹⁰¹

Freud believed that individuals seek happiness following a profound, deep, ancient instinct. To this end, he introduced his concept of the pleasure principle, living for the satisfaction of all needs. There were gradations of happiness, starting at survival, advancing to avoidance of pain, and continuing to pleasure. For Freud the best sort of happiness could only be had when there "is a sudden satisfaction of needs" that have been pent up for some time. If we satisfy each desire as it arises, the happiness in satisfying that desire is lessened. In the real world, a person considers himself happy because he has escaped suffering. Avoiding suffering becomes a goal.

Freud believed each person has a different view of what happiness is – even a search for love is a search for pleasure. When individuals move into a community, they depend on each other. Their actions, to avoid pain or seek pleasure desires, are suppressed by sublimation. One is able to take away the sense of guilt of the superego (conscience) by pursuing intellectual activities, creative activities (music, painting) and excelling at one's job. In spite of the gains an individual receives from civilization, the demands of society (civilization) could, in fact, result in a net loss of happiness for the individual. The alliance to culture or society is only minimally deep. The proof is the wide spread tendency of people to be able to violate cultural rules if they are quite sure they will not in anyway be caught or punished. Social structures of civilization demand many limits on the individual which clash with fundamental and very deep evolutionary instincts. This conflict between an individual's deepest instincts to conform to any social system that he is likely to encounter will never be fully resolved. For Freud, society attempts to oppress the individual into its requirements; consequently the individual can never have full happiness.¹⁰²

Evolutionary psychologists are studying human behavior that includes adaptations, and products of natural selection that helped our ancestors get around the world, survive and reproduce. Darwin's studies support the mind being designed by natural selection. Social cooperation improved the chances of survival, hence natural selection imbued our minds with an infrastructure for friendship, including gratitude and trust. We had enemies and social rivals which created situations for anger and anxiety, to discourage repeated behavior and support survival. Studies in evolutionary psychology reveal that emotions like happiness, sadness, fear and anger, will always trigger the same facial expression regardless of their cultural background. Instinctual responses can be largely overridden by learned rules that dictate appropriate ways for people to express their emotions in a particular culture.¹⁰³

In evolutionary psychology, pleasure has an end, an adaptive purpose. The purpose it serves is reproduction. We get pleasure from all the things that helped our ancestors survive and reproduce. Lust and sex fall into the activities that helped survival and reproduction. However, the feelings of pleasure never last. When one is thirsty, he drinks, then he feels the pleasure because his thirst is quenched. If he were to feel that pleasure forever, he would never drink again, and die of thirst. Today, when a person comes across a lot of money, he becomes happier for a while, then his happiness levels out to what it was before, and he wants more money again.¹⁰⁴

The cult of self-esteem created the milieu for a culture of individualism to thrive. Individualism is a balance between self-reliance, personal responsibility and egotism. The rise of individualism is about people living and acting as individuals rather than as members of a larger group. We do not buy products anymore; we buy lifestyles.¹⁰⁵ A consequence of the cult of individualism is that everyone strives to be different, to be original, or stand out from the vast crowd. Evolutionary psychology suggests we are programmed not to measure by an absolute standard, but by comparing ourselves to people around us. If these people didn't get richer, then theoretically one wouldn't get less happy than they are. "People spend their lives honestly believing that they have almost enough of whatever they want. Just a little more will put them over the top; then they will be contented forever." This is a built-in illusion, psychologist Timothy Miller contends, that is engrained in our minds by natural selection.¹⁰⁶

Chapter 4

Before the Fall

When Ayn Rand developed the ideas around what would become objectivism, there were three areas she could turn to for ethics – religion, the enlightenment or the ancients. Rand rejected religion because it clashed with her idea of need for freedom and the use of reason in making decisions. Rand claimed that faith was a shortcut to knowledge supported by mysticism, her favorite synonym for religion.¹⁰⁷ In addition, Rand opposed religion because it supported compassion and altruism. Rand explained that man should be the beneficiary of his actions: “Egoism holds that a man is an end in himself; altruism holds that man is a means to the ends of others. Egoism holds that, morally, the beneficiary of an action should be the person who acts; altruism holds that, morally, the beneficiary of an action should be someone other than the person who acts.”¹⁰⁸ For Rand, happiness was an end in itself, never for the sake of something else. Rand attacked Kant’s ideas. Kant believed that there was too much ambiguity in defining personal happiness, making it unsuitable as a basis for morality. Instead of searching for happiness, Kant claimed individuals should follow moral law constructed by reason, in which all actions would stand up as universal laws or maxims. Kant’s morality of duty (altruism) stood in the way of Rand’s support for the free market system, in which self-interest benefits individuals they do not even know. Rand adopted Aristotle’s self-love in which we love ourselves in the proper sense when we pursue our own true good. This means using reason to make intelligent decisions rather than being buffeted by desires: having regard for long term interests rather than acting on impulse, behaving with dignity and treating others with respect. This good person only seeks what is good for himself or herself, which is consistent with what is best for all.¹⁰⁹

Ayn Rand described objectivism as the blending of free markets, reason and individualism. It was to be a system of rational self-interest and self-responsibility. Rand

spoke of the importance of “self-esteem,” meaning a justifiable pride in one’s accomplishments. Self-esteem was deemed a necessary defense against altruists who wanted people to give up their liberty or property for the sake of an alleged greater good. Someone with self-esteem would not be bamboozled by false guilt into giving up the fruits of his labor to the tax by government. The selfishness that Rand described to support objectivism was the good self-love of Aristotle that included behaving with dignity and not acting on impulses. Objectivism was a philosophy developed around rational individualism, a reality held together by science and common sense.¹¹⁰

Individualism is a balance between self-reliance and personal responsibility and egotism. The rise of individualism was a result of people living and acting as individuals, rather than as members of a larger group. Alexis de Tocqueville (1805-1859), French political thinker and historian, toured the United States in 1831 officially to review the penal system. During this time, he documented many activities in America. De Tocqueville commented that private interest and personal gain motivated the actions of most Americans which, in turn, cultivated a strong sense of individualism. His definition of individualism was withdrawal from society at large, with a spiritual isolationism. Equality, while bringing great benefit to the world, tends to isolate men from each other and has the potential to create problems. He noted, “It tends to isolate them from one another, to concentrate every man’s attention upon himself; and it lays open the soul to an inordinate love of material gratification. [The advantage of religion is] to impose on man some duties towards his kind and draw him from the contemplation of himself.”¹¹¹ He saw individualism and market capitalism as a significant force in America. To keep individualism from slipping out of control, he recommended that there should be participation in public affairs and growth of associations and newspapers, ensuring that the principle of self-interest was properly understood and creation of a support system from religion.

Rand considered any form of compromise a threat to capitalism:

“The notion of compromise as the supreme virtue superseding all else is the moral imperative of a mixed economy. A mixed economy is a explosive untenable mixture of two opposite elements, which cannot remain stable but must ultimately go one way or the other; it is a mixture of freedom and controls, which means: not of fascism or communism, but of capitalism and statism¹¹²... There can be no meeting ground, no middle, no compromise between *opposite principles*. There can be no such thing as ‘moderation’ in the realm of reason and of morality... The advocates... declare at this point that any idea which permits no compromise constitutes ‘extremism’—that any form of ‘extremism’ any uncompromising stand, is evil—that the consensus sprawls only over those ideas which *are* amiable to ‘moderation’ – and that moderation is the supreme virtue, superseding reason and morality¹¹³... Observe, therefore, that the doctrine of ‘compromise’ and ‘moderation’ applies to everything except one issue: any suggestion to limit the power of government.”¹¹⁴

Conservative libertarians have been exposed to the idea of not compromising from Rand’s original theory for over four decades. They are known to have a real problem with compromising. When the market system was failing as a result of

the 2008 debacle, it was not surprising then that their proposals for change did not include compromise as part of the solution.

The Dilemma

What happens when individuals do not follow the good self-love of Aristotle that included acting with dignity and not acting on impulses? It can be found in businesses. There is one management type, the narcissist whose energy and self-confidence leads him inexorably up the corporate ladder. Narcissists can be terrible managers. They resist accepting suggestions, thinking they will make them appear weak, and they don't believe others have anything useful to tell them. Narcissists generally make judgments with greater confidence than other people, and because their judgments are rendered with such conviction other people tend to believe them; consequently, narcissists become disproportionately more influential in group situations. Because of their self-confidence and strong need for recognition, narcissists tend to "self-nominate"; consequently, when a leadership gap appears in a group organization, the narcissist rushes to fill it. Narcissists who were purely interested in short-term financial gain ran Tyco Corporation and WorldCom. The narcissism at Enron illustrated a company that took more credit for success than was legitimate, that did not acknowledge responsibility for its failures, shrewdly sold the outside world on its genius, and substituted self-nomination for disciplined management.¹¹⁵

In 2002 Congress passed the Sarbanes-Oxley Act in the wake of the Enron and WorldCom accounting fraud, to strengthen corporate governance and restore investor confidence. The Sarbanes-Oxley Act holds companies criminally liable for any 'unfair' accounting by any employee in their company – and gives the government a great deal of latitude to determine what 'unfair' means. Up to 2008, the basic argument against Sarbanes-Oxley was that Enron and WorldCom only represented a few bad apples in the market system. It was unfair to regulate the whole system based on the activities of just a few players. After three decades of a culture of entitlement and selfishness, the mortgage industry and their supporters appeared with self-tolerance and a sense of personal entitlement to the fees for signing up mortgages without worrying about the consequences. Various companies produced rather opaque financial structures, in which good debt was packaged with bad. With the downturn in the US housing market, no one knew who held the subprime mortgages, and this created collateral damage to parties not particularly exposed to the debt. As a consequence of globalization, these assets had been sold around the world. This action, in turn, led to the loss of confidence in the banking system. The decline in the stock market, from the fiasco of asset-backed commercial paper, is a consequence of a culture that peddles entitlement, greed and self-centeredness. This appears to be a repeat of what happened the decade prior, with consequences on a logarithmic scale larger.

The problems did not stem from the lack of oversight or regulation, it's just that the oversight and regulation was inefficient. Bernard Madoff, the author of the sixty-five billion dollar Ponzi scheme (a scam in which early investor returns relies on investments of later investors), is an example of the failure of government regulations. The SEC (Securities Exchange Commission) failed, despite tips and investigations going back to 1992. The failure to regulate security markets was a consequence of the deregulatory

ideology introduced by Ronald Reagan, and the influence of the Wall Street Washington corridor. The elected deregulators removed career regulators from management positions and replaced them with appointees who had worked in, or represented, the regulated industries. Overall, the decisions tended to undermine the effectiveness and mindset of the commission, and advance the interests of the regulated.¹¹⁶ This was the root cause of the inefficiency of the regulators.

Then there is the mortgage industry that the regulators looked after. The principle that the home owner shouldn't take on a mortgage whose payments they couldn't afford was abandoned in the early 2000s. Two forces drove it: the home owner watching prices appreciate, and changes in lending practices. It became possible to obtain mortgages with little down payment, which would be unaffordable for a few when the low teaser rate was reset, and a problem for many if the overall interest rates rose. A few home owners who ran into difficulty were able to take out equity loans on their homes or sell the houses to pay off the mortgages. The lenders did not concern themselves about the quality of the loans because they did not hold on to them. They sold them to investors who did not know what they were buying. This was facilitated by the introduction of the securitization of subprime mortgages, and this was made possible by the collateralized debt obligations (or CDO). The CDO offered shares in the payments from a mortgage pools. The pool consisted of a mixture of mortgages that included subprime. These packages received AAA rating (based on few mortgage defaults, at the time). Many institutional investors stepped forward to buy these new investments. This was a Ponzi scheme driven by ever increasing housing prices.¹¹⁷

The philosophy of Ayn Rand consists of reason, individualism and rational self-interest, and tends to idealize "making money." Reason is the paramount and fundamental means for people to associate and interact with one another. Moral individualism is a key component to this system, however, the large numbers of irrational people (created by the mortgage lenders) could be held responsible for the system not working. The corollary would be when few people practice moral individualism, then objectivism cannot be established to any extent. Peter Singer, an Australian philosopher, believes that moral philosophy that is "noble in theory, but no good in practice"¹¹⁸ is to be avoided, and the theory is good only if it is practiced. Ethics is in some sense universal but, in a utilitarian way, it affords the "best consequences" and furthers the interest of those affected.

The long period of low interest rates were encouraged by the US government to use the housing industry to drive overall economic growth. The objectivists claim that with less government regulation these problems would not have occurred. Where were the regulators? The Federal Reserve acted at arm's length from the government. While the SEC (Securities Exchange Commission) was charged with enforcing regulations like Sarbanes-Oxley, the derivative aspect of investment was deregulated. In spite of a lack of transparency, credit rating agencies, which banks paid to grade some of the new products, provided high ratings to many of them despite the fact that many on Wall Street did not understand what they were buying and selling. The consensus is that the ability of mortgage lenders to package their loans as securities, that were then sold to other parties, played a key role in allowing borrowing standards to plummet. Underwriting a piece of junk and simply passing it along to someone else created terrible risk. However, these instruments allowed commercial banks, like Citigroup, to set up shadow banks that kept

billions and billions of dollars in potential liability off their balance sheets while competing with investment banks, an area of their business not under the jurisdiction of the regulators.¹¹⁹ Moral individualism was absent.

What culture did the “Father of Economics”, Adam Smith, believe occurred with decision making in the market place? Adam Smith is well known as the author of *Wealth of Nations* which became the authoritative statement on the free market economy. Smith doubted that wealth could bring happiness, but was confident that the free market system could bring wealth. An unintentional order is the outcome of all the transactions in an economy in which individuals are free to find the most profitable use of their labor or capital. He explained that the laws of the market place are the laws of an organized society. Smith maintained that an ethical economy is necessary to ensure the just treatment of all. A moral economic process is needed in order to develop human passions to reach a higher level of virtue and morality. In other words, in the system in which “the invisible hand” controlled the market, there is a requirement for ethics.¹²⁰

Rand’s philosophy declared that liberty and the “free market system” coexisted, one reinforcing the other. With the development of globalization in the last thirty years of the 20th century, China became the factory of the world. This system provides low cost consumer goods, and in turn, increases the purchasing power in the West. This was done without the introduction of significant freedom in such counties as China where a central political dictatorship has provided various levels of autonomy to local governments. This autonomy has facilitated the flow of capital from overseas creating a system with the highest growth of any economy in the world. China manages to structure their system to provide the correct incentives to do the right thing for growth. The development of capitalism within dictatorships truly contradicts the thinking of the objectivists that laissez-faire capitalism creates the milieu for freedom to flourish. It appears that capitalism can thrive without significant liberty of the participants.

The fall of the former Soviet Union appeared to validate the theories supporting capitalism. By the 1985 rise to power of Mikhail Gorbachev, the Soviet Union’s last leader, the country was in a situation of severe stagnation, with deep economic and political challenges. Gorbachev initiated a two-pronged approach of glasnost, or freedom of speech and a program of economic reform known as perestroika, or rebuilding. Various American economists advised the Soviet Union on how to revive its stagnant economy by implementing such activities as decontrolling prices, cutting government subsidies, encouraging private enterprise and permitting the exchange of rubles for gold and foreign currencies. “A cold-turkey strategy is the best approach,”¹²¹ declared Ed A. Hewett in October 1989, an economist at the Brookings Institute who had visited Moscow earlier that month. The Soviets did not take a gradual approach but made many changes rapidly and abruptly. The communists destroyed themselves because they were unable to organize their economy. It corresponded with the rise of the Asian economic group – not increased economic power in the US. In December of 1991, as the world watched in amazement, the Soviet Union disintegrated into fifteen separate countries. Its collapse was hailed by the West as a victory for freedom, a triumph of democracy over totalitarianism, and evidence of the superiority of capitalism over socialism.¹²²

The Asian crisis of 1997 involved a combination of hedge fund activities and bank failures that started in Thailand and subsequently spread to Indonesia, South Korea and Japan. The Thai government dithered while currency speculators positioned themselves.

By the time the government responded, the currency had lost 50% of its value and interest rates had been jacked up. Industries found themselves paying dollar debts with twice as much baht (Thai currency) or else paying large interest payments in baht. It surprised many that the devaluation of one small currency spread havoc throughout the region. Paul Krugman, Nobel Prize winning economist, pointed out that emerging market funds were bundled and fed through Korea into the area such that, when trouble appeared in Thailand, it quickly rippled into the other emerging markets.¹²³ The region paid the price for globalization.

The incredible size and complexity of hedge funds was illustrated when Russia's financial sector crashed in 1998. This market turmoil was characterized by its currency collapse and a debt moratorium. The Russian defaults led to plunging prices of securities held by various hedge funds. One hedge fund, Long Term Capital Management (LTCM) was in the direct path of this financial tsunami out of Russia. LTCM had developed a computer model to predict patterns which initially made money in a consistent fashion. With the turmoil in Russia, there was fear that if LTCM failed it could cause a panic. The risk management consisted of the Federal Reserve arranging for a group of banks to take over LTCM. Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve from 1987 to 2006, arranged for consecutive drops in the interest rate and the market responded positively. This impressed many with the ability of the Federal Reserve to intervene and control events. Another group worried that there had been an overrating of the abilities of the central bank to intervene, creating a new form of moral hazard. What this thinking identified was that no one was sure why the markets responded to the intervention the way they did.¹²⁴

Corporations raced to set up shop in foreign economies that aren't really free at all (instead being completely manipulated by totalitarian governments), suggesting this was no longer a strength of capitalism. A generation of workers influenced by extreme individualism in the finance industry looked at the system through the eyes of self-tolerance that comes with selfishness, and took advantage of the system. They believed that they were just smarter than anyone else; the laissez-faire system lay there for the benefit of anyone who possessed the knowledge. High school students sought out degrees in business schools rather than attend medical school because an individual could obtain a Porche before their thirtieth birthday. They did not understand the individualism of objectivism; rather they reported to work with the sense of entitlement of the extreme individualism of the cult of self-esteem. This culture created the milieu for the mortgage crisis. For various reasons, objectivism and its ethics did not parallel the growth of the financial services industry. After thirty years of Reagan economics, in which the financial institutions got their way with ongoing deregulation and laissez-faire economics, regrettably when needed, the system couldn't self-regulate. The poor and the middle class suffer when governments and banks make mistakes. As individuals struggle to understand the full impact of the economic turmoil in the early 21st century and its profound impact on living and working in the worst economic recession of their lifetime, the soundness of the tenets of philosophies like objectivism that support deregulation, become suspect.

Chapter 5

Market Fundamentalism

Ayn Rand's writings support laissez-faire capitalism. Rand explains the development of capitalism in the US, recognizing that she is comparing America to the Russia that she had left in the 1920s:

“America’s abundance was not created by public sacrifices to the ‘common good,’ but by the productive genius of free men who pursued their own personal interests and the making of their own private fortunes. They did not starve the people to pay for America’s industrialization. They gave the people better jobs, higher wages, and cheaper goods with every new machine they invented, with every scientific discovery or technological advance- and thus the whole country was moving forward and profiting, not suffering, every step of the way.”¹²⁵

Friedrich Hayek was another supporter of capitalism who opposed the central planning associated with socialism.¹²⁶ One of Hayek’s colleagues at the University of Chicago was fellow economist, Milton Friedman (1912-2006). Friedman, a leader of the Chicago School of Economics, recommended minimizing the role of government in favor of the private sector and opposed government regulation of any kind. He preached that the private sector could police itself. He helped design the shock program to end hyperinflation and promote a market economy in Chile in 1975.¹²⁷ His laissez-faire ideas were embraced by the mainstream, in particular by Prime Minister Margaret Thatcher of Great Britain and the administration of President Ronald Reagan.

Ayn Rand was a successful and widely read author who introduced the idea of individual liberty and free markets. Her popular novels ensured a wide distribution of her ideas to the masses. CEOs still love Ayn Rand for the following messages: Every man exists for his own sake; Pursuit of his own rational self-interest and his own happiness is

his life's moral purpose. Ayn Rand, along with Friedrich Hayek and Milton Friedman, was highly instrumental in attracting generations of individuals to libertarian ideas.¹²⁸

Libertarianism is about the maximization of individual liberty and minimalizing the role of the state. It supports moral powers to acquire property rights in external things under certain conditions. Libertarians maintain that what is immoral for the individual must necessarily be immoral for all state agents, and the state should not be above the law. Libertarian views vary in respect to how much the state will survive in a libertarian society, and how much private property individuals and groups should hold. Critics argue that a libertarian society cannot prevent natural resources from being destroyed, or the environment from being polluted, because of its rejection of collective regulation and control. Libertarianism is not aligned with any code of ethics and is best understood as being inherently non-judgmental. Libertarianism sees the achievement and preservation of liberty as its ultimate goal, as long as no aggression is involved. It never developed the moral characteristics necessary for self-restraint. Followers believe if the non-aggression principle is in place, this renders ethics non-essential.¹²⁹

Conservative libertarians applauded when economic fundamentalism went main stream in the last two decades of the 20th century. They celebrated the spirit of deregulation and small government in America. This coincided with the fall of communism and rise of the Information Age. The new information networks facilitated globalization of the world marketplace. George Soros (born 1930), billionaire financier, provided one of the earliest descriptions:

“People came to believe in what former US President Ronald Reagan called the magic of the marketplace and what I call market fundamentalism. Fundamentalists believe that markets tend towards equilibrium and the common interest is best served by allowing participants to pursue their self-interest. It is an obvious misconception, because it was the intervention of the authorities that prevented financial markets from breaking down, not the markets themselves. Nevertheless, market fundamentalism emerged as the dominant ideology in the 1980s, when financial markets started to become globalised and the US started to run a current account deficit.”¹³⁰

The fundamentalist element of this position is a dogmatic belief that free markets maximize individual freedom, are the only means to economic growth, and that society should adhere to their specific ideas of progress. Economic fundamentalists preach the traditional ideas of Adam Smith with respect to the efficiency of an unfettered marketplace.

Fundamentalism refers to a belief in, and strict adherence to, a set of basic principles (often religious in nature), sometimes as a reaction to perceived doctrinal compromises with modern social and political life. Richard Dawkins (born 1941), a British evolutionary biologist and critic of creationism, has used the term to characterize religious advocates as clinging to a stubborn, entrenched position that defies reasoned argument or contradictory evidence.¹³¹ In finance, fundamentalism is the belief that fundamental financial quantities are the best predictor of the price of an instrument. To some, economic fundamentalism is a misguided belief, or deliberate deception that free markets provide the greatest possible equity and prosperity, and that any interference with the market process decreases social well being. Fundamentalists have a dogmatic

belief that markets tend towards a natural equilibrium, and the best interests in a given society are achieved by allowing its participants to pursue their own financial interests with little or no restraint or regulatory oversight. This faith in free market fundamentalism establishes a rigid framework for thinking.

One major risk of economic fundamentalism is that, like other forms of fundamentalism, it often breeds policy extremism. This occurred in the 1960s and 1970s as the work of John Maynard Keynes (1883-1946), a British economist, whose ideas concerning economic policy (promoting social liberalism) were adopted after World War II by most western nations, was vulgarized by many of his followers, and used to justify the most extreme forms of government intervention.¹³² And in the 1980s and 1990s, the same happened as monetarism, public choice theory and neo-classical economics were misused by some to justify simplistic small government policies.¹³³ As for monetarism, it is essentially the belief that the freedom to make and spend money will finally address all our human needs, and that the public good is ultimately served by subordinating our social concerns to the requirements of business. Milton Friedman preached that free movement of capital will eventually produce enough money through the so-called “trickle down” effect to lift even the poor out of poverty.

Globalization was meant to be the great equalizer. Goods would flow easily across borders. Standards of living in poor countries would be raised. Globalization promotes free trade, which ultimately benefits everyone, and because free trade opens access to goods, services, capital, people, information and technology, it provides countries with their best opportunity to advance. Advocates for globalization say that it drives human progress and worldwide economic growth, and they are convinced the emergence of a global market economy will bring unprecedented prosperity to millions, while governments will become more stable. Instead, it has brought citizen protests, greater economic disparities between first and third world nations, and a complex trade regime that may well benefit only the richest in richest countries. The rapid movement of capital out of countries can have devastating economic, political and social consequences for the people in those countries. It has been associated with an increased gap in wealth between first and third world countries and an increased gap in wealth between the richest and the poor in Western countries.

It may be the ‘information age,’ but information is more controlled than the public likes to think. In the US it is recognized that information goes through a process of filters or consultants known as spin-doctors. This makes information gathering by media a game. Also, media start with various levels of bias. In the 1980s there were people who were skeptical of market fundamentalism in general and the big banks in particular. In order to decrease the cognitive dissonance, the bankers linked home ownership to financial instruments and complex securities. They borrowed upbeat language from the IT world, including the positive message that innovation was good. This was part of a targeted message that Wall Street was good for America. In particular, the message that complex securities could help low and middle-income families own homes was key to disarming any suspicion. Over time, this message alleviated any concern Democratic politicians had about mortgage lenders and investment bankers.¹³⁴

The image of the large banks evolved from untrustworthy to being part of the American innovation scene, creating innovative new products that would supposedly improve the life of everyone. They rode the wave of financial innovation, liking it to the

technological innovation associated with IT, hence it was necessarily good. The complex financial transactions were inherently good because they helped ordinary citizens own their own homes. Wall Street became an exciting place to work, and was able to attract top graduates from universities. Two decades prior to 2008, bankers did not need to hide behind the scene as it became accepted that a sophisticated unrestrained financial sector was good for America and became part of the conventional wisdom of the political and intellectual class.¹³⁵

One of the main observations from Simon Johnson and James Kwak in *13 Bankers: The Wall Street Takeover And The Next Financial Meltdown* was the appearance of the Wall Street Washington corridor that provided big bankers access to the politicians. It was built on three pillars: congressmen dependent on campaign contributions, having Wall Street people in key administrative positions (Wall Street provided man power for both Republican and Democratic administrations), and having senior regulators fascinated by a prospect of a lucrative job when they leave the civil service (a few years later). These made up cultural capital. This oligarchy, developed without the use of bribes, cashed in on its power for higher and higher profits, influencing modifications to the regulatory climate that allowed a proliferation of product innovation and risk-taking that inflated the largest bubble in modern economic history, while creating the mother of all cash cows for Wall Street.¹³⁶

This influence was present when Citibank merged with Travelers Group, an insurance company, and formed the conglomerate Citigroup, a corporation combining banking and insurance underwriting services under brands including Smith-Barney, Shearson, Primerica and Travelers Insurance Corporation. This combination, announced in 1998, would have violated the Glass-Steagall Act (established in 1933, that separated investment and commercial banking activities) by combining insurance and securities companies, if not for a temporary waiver process. The final repeal of Glass-Steagall in 1999, after two decades of trench work, was recognized as a historic water-shed by the big banks, noticed by the medium-sized banks as a business they would not be able to participate in, and unheard of by many small banks. Now, large banks, investment houses and insurance firms were able to offer a complete umbrella of services. This opened up business for all the big banks. The Gramm-Leach-Bliley Act (GLBA) allowed commercial and investment banks to consolidate services by creating a financial holding company (now including insurance). This deregulation was packaged as ‘modernization’ with the merging of banks and insurance companies, as it required the introduction of rules on personal information and privacy requirements to ensure companies safeguarded private information of individuals.¹³⁷

The search for greater and greater profit created a climate to use loopholes to bypass the regulations. The big banks made use of the instruments to get around the rules. By using loopholes, structures were developed that reduced the capital requirements, while the risk remained the same. There was no intervention by the regulators even when it was recognized that banks were attempting to avoid regulation on minimal capital requirements. By 2001, new rules were issued: if institutions retained some of the risk, then they could use their own internal models or rating agency, allowing them to avoid ‘inefficiencies’ created by the regulation. As the rating agencies relied on fees from the banks to exist, the (deregulation) change created a situation that allowed the banks to shop for ratings – creating a scenario in which they played one agency off against the

other rating agencies. To ensure good service, the agencies placed managers who understood this system and were able provide the service the customer (banks) desired. Unfortunately, investors did not understand the weakness, as a consequence of rule changes (deregulation), inherent in this rating system.¹³⁸

The Fed did not investigate compliance; banks used subsidiaries not covered in regulation, which created enough churn and confusion to stay ahead of regulators. In 1998, banks were using subsidiaries, and the Federal Reserve Board received many consumer complaints but decided “not to conduct consumer compliance examinations of, nor to investigate consumer complaints regarding, nonbank subsidiaries of bank holding companies claiming it could not regulate nonbank entities.”¹³⁹ In 2000, further recommendations to investigate abusive lending practices were blocked by the head, Alan Greenspan, a champion of subprime lending. He remained fascinated with the new technology of the banking system, and believed that the system would self-correct even abuse of the system. There was a reluctance to interfere in a system that was creating prosperity and jobs.

There will be individuals who see no need for change. Conservative libertarians accept the conviction of the neo-classical model that “the free market,” unconstrained by government oversight and regulation, will always produce better results than markets directed by legislation. The free market, they insist, resulting from the “utility maximizing” transactions of numerous autonomous buyers and sellers, ‘spontaneously’ establishes prices and prompts entrepreneurial decisions that yield the best outcome for the society in general. They insist that the free market is self-correcting, and that there is thus no need for regulation. The libertarians used objectivism to add moral principles to their market fundamentalist beliefs. Moral values, which refer to the worth of people, are systematically excluded from neo-classical economic theory. Market fundamentalism now appears as a ‘dogma’ that is accepted ‘on faith’ despite clear and compelling evidence that it is false. This reassuring dogma conveniently neglects the ‘third parties’ to economic transactions: the ‘stakeholders’ – individuals affected by the transactions without their informed consent. Questioning claims about knowledge and truth is crucially important in order to avoid the mutation of what one has learned into dogma.

The Asian financial crisis was a series of currency devaluations and other events that spread through much of Asia in the summer of 1997. It was triggered by the failure of currency markets in Thailand. In Thailand there was a massive speculation on the currency. In a few months the currency lost half its value and the Thai Stock Exchange lost 75% of its value. In South Asia many currencies are pegged to the US dollar. With signs of currency weakness, outside investors fled the market in widespread panic. The crisis was stemmed somewhat by financial intervention of the IMF and the World Bank. As a consequence of the crisis, financial and government reforms were implemented in Thailand, South Korea, Japan, and Indonesia. As insurance against further economic downturns, these economies implemented heavy buying of US treasury bills as a global investment (used by most of the world’s sovereignties). The cause was believed to be the rapid liberalization of markets and privatization of enterprises that left the fast growing East Asian economies vulnerable to the sort of speculation that preceded the contagion.

On review of the institutions prior to the Asian financial crisis, it was noted that panic took hold when banks, other financial institutions and property holding companies began to fail. On examination, nearly all had been financially overexposed as a result of

their lending policies. There is considerable intertwining of the relationship between the state and the economy in these countries. It appeared that the system could function so long as growth was vigorous, in an environment of pegged exchange rates and lax supervision. There was an expectation that exchange rates would last the duration of a loan, but this led to huge losses when the slow down occurred. Alan Greenspan and friends explained that the financial crisis was caused by Asian state capitalism, basically government interventions promoted investment excesses and errors. There is another explanation. The other was ‘crony capitalism’ or oligarchies, a system of arbitrary government favors or outright nepotism which created moral hazard and inefficient allotment of capital and resources. The negative effect was to undermine rational investments and cause uncertainty about government actions or guarantees. It appears that an oligarchy and weak regulatory agencies created the economic distortion that led to the Asian financial crisis.¹⁴⁰

The Bush Administration downplayed America’s role in fostering the problem that occurred on its watch – unchecked structural budget deficits and a plunge in the income-based saving rate of U.S. households. US policy allowed large bilateral imbalances with countries such as China. Such foreign demand for U.S. financial assets was absolutely critical in plugging the funding gap brought about by an unprecedented shortfall of domestic saving. Without China’s purchases of US dollar-based assets, the US dollar would undoubtedly be lower and U.S. interest rates would be higher. The Chinese are now the largest holders of US debt. In his article, *The End of Financial Globalization*, Moritz Schularick, a Professor of Economics at the John F Kennedy Institute of the Free University of Berlin, describes the problems of the financial symbiosis that has developed between China and the US:

“Lower interest rates in turn have enabled American households to increase consumption levels and worsened the imbalance between savings and investment, private investors turned elsewhere to look for higher yields. This led to a more general re-pricing of financial risks and unleashed the ingenuity of financial engineers to develop new financial products for the low interest rate world – such as securitized debt instruments.”¹⁴¹

The engine driving the US economy was the housing bubble. Alan Greenspan was associated with a decade of deregulation and adjusting interest rates to historic lows that contributed to the housing bubble and the subprime mortgage and credit crisis in 2007.

During the first decade of the 21st century, the financial markets played a very important role, accounting for an average of 30 percent of corporate profits from 1998 to 2007.¹⁴² Those who ran the financial markets garnered those profits on the argument that they were helping manage risk and efficiently allocating capital, which is why, they said, they ‘deserved’ those high returns. That’s been shown to be untrue. They’ve managed it all badly. A major cause behind the stock-market plunges the world over is the US financial instruments designed to spread and protect risk by including all manner of home mortgages. But banks, credit-rating agencies and investors turned a blind eye to the possibility of a decline in US home prices, the foundation for many of the fancy debt instruments. As home prices and wages fell, food and other prices rose. Broadly speaking, each part of the US financial system became fee-oriented and ignored basic rules of fiduciary responsibility. Mortgage companies originated new home loans – sub-

prime mortgages and others – for a fee and promptly sold them. Banks bought, bundled, and then sliced and diced these mortgages into different risk classes, selling them to hedge funds and even central banks. How risky was each part? The ratings agencies, paid by the banks that originated these bundles, looked only at recent default experience. Since real-estate values had been rising, any borrower in trouble could sell the property or refinance, so defaults were low and the bundles seemed safe enough for triple-A ratings. If the problems were confined to sub-prime mortgages, they would be serious but not overwhelming problems. However, many adjustable-rate mortgages, home-equity loans, second mortgages, credit-card debts and even ‘regular’ mortgages were also threatened. As property values fell, many borrowers found their debt was worth more than the property. At that point, it often made sense to walk away from the property and let the bank foreclose.¹⁴³

Between 2008 and 2009, one of the most significant financial crises in North American and European history occurred. The response was just as historic. To stave off regional and global recessions and restore stability and confidence in the market, northern governments pursued a massive and unprecedented program of government intervention, nationalizing banks, injecting massive subsidies into ailing institutions and re-regulating their financial sectors.

Financial innovations were linked to progress in the market place, however, there are financial innovations that do not benefit society. There is no law that dictates that all financial innovations are beneficial simply because someone can be convinced to buy them. Recent innovations in credit cards typically involve hiding the costs from the client, especially with respect to late fees and penalty rates. Innovation that increases the availability of credit can also be harmful. When people who have built up equity in their homes lose them, and if enough of this value destroying investment occurs in a community, then the home prices are depressed for everyone. In the heydays of financial innovation, any challenges were written off as individuals who were out of touch with a new era of financing.¹⁴⁴

The idea that the financial crisis of 2007-2008 was caused by forces beyond anyone’s control is now considered nonsense. The numerous revelations of unscrupulous behavior are only beginning to be understood along with the consequences of the cult of extreme individualism. Very few cases have been brought against major banking figures. George Soros described the problem as:

“The salient feature of the current financial crisis is that it was not caused by some external shock like OPEC raising the price of oil or a particular country or financial institution defaulting. The crisis was generated by the financial system itself. This fact—that the defect was inherent in the system—contradicts the prevailing theory, which holds that financial markets tend toward equilibrium and that deviations from the equilibrium either occur in a random manner or are caused by some sudden external event to which markets have difficulty adjusting. The severity and amplitude of the crisis provides convincing evidence that there is something fundamentally wrong with this prevailing theory and with the approach to market regulation that has gone with it. To understand what has happened, and what should be done to avoid such a catastrophic crisis in the

future, will require a new way of thinking about how markets work.”¹⁴⁵

The Securities and Exchange Commission, in 2004, adopted a voluntary regulation scheme for investment banks that enabled them to incur much higher levels of debt. This set the climate such that, in April 2004, the five large investment banks used their own internal models, based on historical values. This (deregulation) allowed banks to determine their net capital, consequently “between 2003 and 2007 the five major investment banks increased their overall leverage taking on riskier and riskier positions that increased their expected profits while increasing their overall risk.”¹⁴⁶ Between 1998 and 2005, the number of subprime loans tripled, and the numbers that were securitized increased by 600%. The weakest link, by 2008, was Bear Stearns, which could become insolvent with a 3% drop in assets, leaving it insolvent.¹⁴⁷

The International Monetary Fund becomes involved in an emerging market crisis, and typically leads to a shakeout of the oligarchy, with political power redistributed. In the case of the US, large banks disappeared: Bear Stearns, Lehman Brothers, Merrill Lynch, Washington Mutual, and Wachovia. In addition, a large number of nonbank mortgage lenders disappeared. In a developing country crisis the oligarchy shrinks with power concentrated in a smaller number of hands and, in the case of the US, competition shrinks with power concentrated in fewer banks. In an emerging market crisis, putting government money into some banks is standard practice, but the money comes with strict conditions attached in order to begin the reform process. In the US, during 2008, conditions were absent when government funds were transferred to the large Wall Street banks. In fact, the opposite happened; the government bent over backwards to make the terms attractive to the banks. Now that the Wall Street banks have recovered, with the oligarchy structure still intact, any reforms coming forward are typically watered down.¹⁴⁸

Globalization is driven by the desire of corporations to pursue economic liberalization. In the Asian financial crisis of 1997, weak regulatory systems, in combination with oligarchies, created the excesses that triggered the currency devaluations, loss of confidence and the flight of capital. The IMF helped bring in financial and government reforms to the affected countries. By 2000 the oligarchy that looks after the interests of the big banks in the US had convinced politicians of the need to keep the market unfettered by regulation, and this created the over-leveraged market that imploded in 2008. “If the crisis has a single lesson, it is that the too-big-to-fail problem must be solved,” said Federal Reserve Chairman Bernanke, while testifying before the Financial Crisis Inquiry Commission, in September 2010.¹⁴⁹ The rules that regulators adopt to support the Volcker rule to control ‘proprietary trading,’ will not address ‘too big to fail.’ The reforms need to counter the power of the banking oligarchy and address the weakness of the regulatory agencies in order to keep the whole system moving forward, productive and profiting.

Chapter 6

Objectivism Lost

In 17th century Europe, the church was the main place where ordinary people got their information and were handed down opinions on what was right or wrong. Any established church was a very effective form of thought control. The churches of this time were the natural enemies of new ideas. John Milton believed that instead of placing their thoughts and beliefs toward God as they should, humans had turned to erected objects and falsely invested in ritual rather than their faith. For Milton, one of the gains of the English Civil War was to break the stranglehold of the established church and its thought police along with the king's censorship. Milton's message was that rebellion against authority must not be based on naked self-esteem and over-weening ambition to usurp power for its own sake.¹⁵⁰ After the death of Oliver Cromwell, the Commonwealth quickly fell apart. The monarchy, which had been removed in 1649 with the execution of Charles I, was restored with the return of Charles II, the son of Charles I, from France. Through his writings Milton reconciled himself to the defeat of his hopes and the failure of a good cause, the republic.¹⁵¹

The Medieval Church was the dominant institution of medieval times and had a system to suppress challenges to its wealth and power. The church's measures to suppress heretics had less to do with spirituality and everything to do with maintaining social and political control. Aristotle's followers called him "The Philosopher" and many accepted every word of his writings or at least every word that did not contradict the Bible – as eternal truth. Fused and reconciled with Christian doctrine into a philosophical system known as scholasticism, Aristotelian philosophy became the official philosophy of the Roman Catholic Church. The church used Aristotle's ideas to support interpretations of the scriptures.¹⁵² The corporation, the predominant institution of the 21st century, is supported by many of the followers of Hayek and Friedman who accept unquestioningly every word of their writings that support laissez-faire economics. Corporations have considerable support from the media and think tanks in the 21st century, allowing control

over a great deal of what individuals think. (Chapter 8 identifies many of the processes used by vested interests to control what the general public thinks in order to maintain social and political power.)

The Brookings Institute, founded in 1918 by Robert Brookings, was one of the first think tanks in the US. Initially centrist, the Institute took its first step rightwards during the depression, in response to the New Deal. In the 1960s, it was linked to the conservative wing of the Democratic Party, backing Keynesian economics. From the mid-70s it developed a close relationship with the Republican Party, eventually moving further towards the right in parallel with the increasing influence of right-wing think tanks. Two leading think tanks in Washington, the Brookings Institute and the American Enterprise Institute, were active in holding seminars, and publishing studies advocating deregulatory initiatives, throughout the 1970s and 1980s. This effort was all about making the US economy more efficient.¹⁵³

The economic fundamentalists have had the ear of Western governments, until just recently. Joseph Stiglitz, Columbia professor and 2001 winner of the Nobel Prize for Economics, wrote in *Vanity Fair* (July 2009):

“The fall of the Berlin Wall, in 1989, marked the end of Communism as a viable idea. Yes, the problems with Communism had been manifest for decades. But after 1989 it was hard for anyone to say a word in its defense. For a while, it seemed that the defeat of Communism meant the sure victory of capitalism, particularly in its American form. Francis Fukuyama went as far as to proclaim “*the end of history*,” defining democratic market capitalism as the final stage of social development, and declaring that all humanity was now heading in this direction. In truth, historians will mark the 20 years since 1989 as the short period of American triumphalism. With the collapse of great banks and financial houses, and the ensuing economic turmoil and chaotic attempts at rescue, that period is over. So, too, is the debate over “market fundamentalism,” the notion that unfettered markets, all by themselves, can ensure economic prosperity and growth. Today only the deluded would argue that markets are self-correcting or that we can rely on the self-interested behavior of market participants to guarantee that everything works honestly and properly.”¹⁵⁴

What are the indications that objectivism, a philosophy based on reason, individualism and a free market economy, has failed? On one side of the debate is the observation that the stock market lost over 30% of its value following the 2008 meltdown; the only other time that it reached that value in the past 180 years was in 1931. The supporters of objectivism typically counter that *these* attacks are completely baseless. Alex Epstein, an analyst at the Ayn Rand Center for Individual Rights claims, “There was no free market in mortgages or finance – these markets were riddled with controls and distortions,”¹⁵⁵ created by the Fed, Fannie and Freddie. In addition, there was poor decision-making. About 20% of the homebuyers took on mortgages that they could not afford, and the financial institutions were more interested in their fees and took advantage of the types of packages sold to the buyers. The free market economy still exists; actually it has been functioning with less and less regulation over the past three decades.

Reason is the power of thinking in an orderly rational way. There was nothing preventing the mortgage lenders or borrowers from applying reason and thinking in a

rational way. Individualism of objectivism deals with the primary importance of the individual and in the virtues of self-reliance and personal independence. This individualism includes advocating freedom from government regulation in the pursuit of a person's economic goals. Rand described individualism as:

“Individualism regards man – every man – as an independent, sovereign entity who possesses an inalienable right to his own life, a right derived from his nature as a rational being. Individualism holds that a civilized society, or any form of association, cooperation or peaceful coexistence among men, can be achieved only on the basis of the recognition of individual rights – and a group as such, has no rights other than the individual rights of its members.”¹⁵⁶

However, what exists as a consequence of the cult of self-esteem are individuals with a belief system of extreme individualism with the accompanying problems of self-tolerance. These are people who do not evaluate themselves against any type of standard. They tolerate their personal flaws. This can deteriorate into an assumption of entitlement: the feeling that they deserve something regardless of whether they have done anything to earn it. With sense of entitlement has come the expectation for well-paid employment and not having to work hard. People were sold mortgages that the sellers knew all too well they neither could not afford, nor understood the consequences of the initial low interest rate. This activity made money for the mortgage seller and the bankers who repackaged the high-risk investments. The moral philosophy of objectivism was absent at more than one level when these transactions occurred.

Gabor Steingart, a German journalist and author, described in *War for Wealth*, the reasons for the rise and fall of nations (by Harvard historian David Landes) as:

“...the rise and fall of nations is not determined by climate or natural resources, military might, financial resources, technical expertise and even inherent biological traits. Culture is the decisive factor he says— culture in the sense of moral values and behaviors. Those who wish to be winners must divorce themselves from the past throughout history, the failures of great societies have always been failures from within... The once impressive realms of the Romans, Spanish and British all ended as failing empires. Their rulers did not lack the ability to exercise occasional self-criticism, but they did lack the strength to establish a culture of change. An entire society that loves its status quo so much that it sees its own change as an underhanded attack on its way of life will not be able to hold on to its spot in the ranking of nations. Those who are capable of change continue on, while those who stand still lose political power and economic prosperity— and their cultural influence wanes.”¹⁵⁷

In *False Economy: A Surprising Economic History of the World*, Alan Beattie, a former economist at the Bank of England, and presently world trade editor of the *Financial Times*, described the barriers to change in 17th century Spain:

“A bloated aristocracy was living off rents and preventing more productive use of land and labor. The largest land owning families had a long-established business of rearing sheep for high-quality Merino wool, made particularly lucrative by a government monopoly. Small farmers were discouraged from planting and enclosing arable land in case it disrupted the

grazing. This, together with controls on food prices, led to a general drift of the population out of the country-side and into the towns, though there was not enough work for them when they got there. When the international market changed and the demand for such wool dropped, it was even less sensible to favor the traditional forms of agriculture. Yet still the landlords clung to their privileges... When it came down to it, the aristocracy would not give up enough of their privileges to preserve the system that had made them rich. As one contemporary observer said of reform: Those who can will not, and those who will cannot.”¹⁵⁸

In the state of dissonance, people will avoid information and situations that might increase the dissonance. Sometimes this is achieved by minimizing the importance of the conflict. However, when a person believes something with his whole heart, has a commitment to this belief and has taken irrevocable actions because of it, he will react quite differently. When such a person is presented with evidence, unequivocal and undeniable evidence that his belief is wrong, the individual will often emerge unshaken, but even more convinced of the truth of his beliefs than ever before.

Two factors that affect the strength of the dissonance are the number of dissonance beliefs and the importance attached to each belief. In cognitive dissonance and politics, the tendency is to revise history, change facts, make fiction truth or the truth treason in order to reduce dissonance. Even when facts that contradict political ideology are simply not taken in, if anything, challenging misbelief with fact checking has the counterintuitive effect of reinforcing that misbelief. This process allows media outlets like Fox News to provide a milieu where ideologues can have facts that support their worldview, continually reinforced.

Sensing decline, conservative minds obsessed with the notion that life must be returned to the values of a simpler, purer past, cling to the doctrines of the past. Even with significant evidence that the markets failed under a deregulated system, individuals will become even more convinced in an unfettered market that is not regulated. This is part of responding to cognitive dissonance created from the sense that we need order. For economic fundamentalists this means turning back to the classical theory of Adam Smith even with the failure of the financial services industry to self-correct in 2008. In spite of the collapse of significant banks on Wall Street, derivative structures continue, and there is no perceived need to change, even though derivatives were a significant part of the problem. These financial managers continue along their path. This activity minimizes dissonance while ensuring ongoing healthy bonuses for the players involved.

The Office of Thrift Supervision (OTS) was typical of the deregulation story as Johnson and Kwak observed:

“Between 1985 and 1992 over 2000 banks failed in the saving and loan crisis, a consequence of deregulation, mismanagement and fraud. Those S&Ls had been largely overseen by the Federal Home Loan Bank Board, which had failed to shut down struggling thrifts in the 1980s, instead hoping they would grow into solvency by expanding into more profitable (and riskier) businesses. In response Congress...abolished the Federal Loan Bank Board and replaced it with the Office of Thrift Supervision (OTS)...President George H. W. Bush signed the bill saying. ‘This legislation will safeguard and stabilize America’s financial system and put

in place permanent reforms so these problems will never happen again.’¹⁵⁹

Shortly thereafter, the signs on the Bank Board offices were changed to OTS. During the 2000s there were several regulator offices that required fees from the banks they regulated, in order to function. During this time the OTS was considered the weakest or most lax regulator. American International Group (AIG) opened a savings and loan and then chose OTS as its primary regulator. AIG, a massive insurance company with one of the largest derivative trading sections in world, chose a regulator that had no chance at monitoring risks taken on by its Financial Products Division. In March 2007 the OTS approved the application to convert giant mortgage lender Countrywide from a bank holding company to savings and loan in order to fall under OTS regulations.¹⁶⁰ In the shakeout of 2008, Bank of America absorbed Countrywide, JP Morgan Chase absorbed Washington Mutual (under OTS in 2000s, the largest bank failure in US history) and AIG was taken over by the government, later, initially \$70 billion in TARP to pay down its credit line from the Fed, plus further backdoor bailouts to retire CDOs, committing \$180 billion to various rescue packages. In 2008 being ‘too big to fail’ became a government policy.¹⁶¹ The worldview of the Wall Street Washington corridor created the milieu for these failures.

The conservative mind includes the psychological imperative to believe in the possibility of returning to a more moral past. The earlier evolution of evangelicalism out of fundamentalism, and its current reactionary tendencies back toward fundamentalism represents a striking illustration of Ernst Troeltsch’s notions of sect-to-church-to-sect development. According to Troeltsch (1865-1923), a German protestant theologian known for his contributions to the sociology of religion,¹⁶² the sect rejects cooperation with society, and is in constant tension with society, viewing it with suspicion and mistrust. Furthermore, since the sect identifies the church with society, it sees itself in conflict with the church as well. Criticizing the church for having left some earlier pristine state, the sect calls for a return to that state. Moreover, the sect perceives within itself the constant threat of an insidious “laxist tendency.” The prime means of retarding laxity or corruption is to insist on conformity to certain ideas, to purge those who disagree, and thus, with a smaller but ‘purer’ fellowship, to propagate the sect’s viewpoint. Above all, the sect resists change both in its own religious patterns and in society. Change is in and of itself suspect since it may be, and often is, a modification of ideas considered sacred by the sect.¹⁶³ This allows social issues (family values, pro-life) to be attached to the debate supporting market fundamentalism.

Herbert Spencer was a Lamarckian who developed the theory of ‘the survival of the fittest’ to support laissez-faire economics that predated Charles Darwin publication of the *Theory of Evolution*. It became attractive to explain economic growth in America. This theory explained that economics appears and operates like ecosystems, weeding out the weak and allowing the strong to flourish in the market place. People bought in, and proceeded to eliminate their competition and not accommodate them. Spencer’s survival of the fittest concept supported the social Darwinism theory, was believed to be natural, hence morally correct. The theory supported exploitive forms of capitalism, and opposed handouts to the poor. In fact Spencer believed all handouts to the poor should be eliminated. The theory lost its attractiveness after the 1920s.¹⁶⁴

The Tea Party movement began in the US in early 2009 as protests against government bailouts and healthcare legislation. The protest movement is named after the Boston Tea Party of the pre-revolution years that became a symbol of tax revolt. The coalition was tagged as extremist because of disruptions during health care town hall meetings during the summer of 2009. They believed that the purpose of American independence was to throw off not just the British government, but any big government.¹⁶⁵ Now with all the uncertainty caused by the market and the increased opposition to entitlements (money paid out to the poor and disadvantaged) by various groups within the Tea Party movement, the expression of opposition to entitlements is a return to old ideas, like 'survival of the fittest.' Similarly, some libertarians apply this thinking in support of monopolies. This is an example of reverting or turning back to a previous explanation or theory to reduce dissonance.

Unless there is a clear and pressing need for change, there will nearly always be people who do not test their beliefs or customs. To win people over requires respect. It is also harder to win people over without respect for their intelligence and their traditions. One way to reduce dissonance is the reduction of perceived choice – such as the old way not being viable. The packaging of change in order to introduce a new model is to point out that the theme of competition minimizes the importance of the conflict. The greatest obstacle is to balance the reward system that consists of the sense of entitlement that is so pervasive in today's society. There is a major challenge to debunk myths that have become established in people's minds on economics. Change isn't easy. Communication needs to carry the day with perceived benefits. It is known that 70% of all organizational change management initiatives fail to deliver the promised benefits (the only certainty is there is no certainty). John Wooden, basketball player and coach observed, "Failure is not fatal, but failure to change might be."¹⁶⁶

In the 21st century, there is ample evidence to disprove Rand's point that less government is best for capitalism. The strongest economies in the past thirty years have been China, India and Thailand, all countries with government controlled economies. The last three decades of deregulation did not prevent problems in the financial services industry, in fact, the deregulation culture was part of the problem. Rand claimed that capitalism needs freedom to succeed. The fact that China, today, is the factory of the world negates this argument. Large corporations of globalization are calling in favors with government legislatures just as before, if not even more obviously.

It is generally believed that economics and morals have nothing in common. Asian and Western countries share three factors: both buy raw materials from the same suppliers, both use know-how that mostly comes from Western countries, and thirdly, both have a component of workers compensation – wages, benefits, holiday pay, overtime pay, unemployment insurance, and pension benefits. Western values include protection of the environment (clean air, clean water), proper housing, as well as the way children are treated. The Chinese are out-manuevering the West by a combination of clever politicians, by a feat of strength by ordinary people and generous underbidding of Western standards. The milieu is poor standards for health and safety, no pensions, and low costs for economic protection. These workers are willing to do anything for less than the West, so morals and economics are connected. Countries with the greatest economic growth today, India, Singapore, Japan, Korea, Malaysia, also see the state play a significant role in the economies.

A commitment to reason underlies the objectivist commitment to moral integrity: a rational person makes choices for the long term, taking account of the full context, and acts consistently on the basis of objectively proven principles. Libertarianism supports the idea that the human free will is a necessary precondition of moral responsibility. While states or laws may have an influence on human decisions, humans have a moral responsibility for their actions. Conservative libertarianism supports the view that each person has the right to live his life in any way he chooses so long as he respects the equal rights of others. At best, this works when the non-aggression principle is in play. Rand describes the wrong self-interest is “to act on the impulse of the moment, without regard for his long-range context, is not.”¹⁶⁷ The action, selfishness or unselfishness, is to be determined objectively by the feelings of the person who acts. In the cult of self-esteem, individuals are making decisions based on emotional factors for short term gains.

There has been a flaw preventing objectivism from flourishing. The major glitch has been the absence of the ideal selfishness of Aristotle that is key to the success of Rand’s philosophy. It was replaced by the selfishness of self-centeredness, a consequence of the cult of self-esteem in the school system during the last two decades of the 20th century. The current global financial crisis underscores the inequality, fragility and unpredictable future of the present, capitalist, economic system. The rational selfishness envisioned by Aristotle and adopted by Rand was replaced by the cult of self-esteem and extreme individualism. The Satan of *Paradise Lost* was too proud to admit he was wrong and did not hesitate to manipulate his allies and lead them forward for his own selfish plans.

Objectivism adopted the self-love of Aristotle. This self-love was the love of virtue with the pursuit of one’s happiness, required ethically virtuous activity and would be of great value to not only one’s friends but to the political community. In this system self-love is rightly condemned when it consists of the pursuit of the largest share of external goods, such as wealth and power. Such self-love brings one into conflict with others and is properly condemned when it can be shown to be harmful to the community. The most ardent supporters of objectivism are neoliberals who are selfish (the wrong self-love identified by Aristotle), and have no interest in the needs of others. This self-love is vicious and reacts to emotion with immediate pleasures satisfied. The virtuous or decent self-love follows reason, and aims at a virtuous life. Proper self-esteem is a necessary component of objectivism.

It was as if everyone was asleep and not aware of the risk of derivatives and swaps not being regulated. In October 2008, Alan Greenspan, who has a libertarian view of the market, spoke in a congressional hearing room: “I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such as that they were best capable of protecting their own shareholders and their equity in the firms.”¹⁶⁸ This was part of the statement that documented that four decades of Ayn Rand’s ideals had let him down. He had refused regulation of derivatives and swaps in 2002-2004. These instruments were used to insure or cover their trading in subprime mortgages. Events proved Greenspan wrong and enhanced market discipline could not address the concerns of legislators about manipulation of the markets. While a combination of ideology and lobbyists won the debate and allowed derivatives and swaps to soar before 2008, the credibility of objectivism crashed along with the stock market as the financial industry imploded. The myth (supported by the lobbyists) that no one understood the complex risk

of the financial instruments was gone, and replaced by an understanding that objectivism was, if anything, too simple an explanation to explain a complex issue.

Everyone accepted the idea that the deregulated market was self-correcting, until 2008. The deregulation allowed the banks to consolidate on one hand and, on the other, run large parts of their business out of the scrutiny of the regulators. Those in the mortgage market were selfish and their activities were harmful to the community. The banks became too big to fail. The illusion was that this system, a product of globalization of the financial markets, could self-correct, as required. The illusion was shattered and was followed by anger and bitterness. As expectations gave way to reality that the market system was not going to bounce back the usual way, for many, this meant the dreams of a pleasant retirement and the promise that one's children would have a better life than their parents, have been destroyed.¹⁶⁹

While all men and women suffer from disillusionment, few know that their state of disappointment is the result of the breakdown of an illusion they themselves had manufactured. As expectations that the deregulation of the financial services industry was a sound policy gave way to reality, many have become angry and disillusioned. The pain, resentment and bitterness make many question whether any of the theories were ever sound. Disillusion is never possible without fantasy – and the destructive strength of the disillusionment can never exceed the strength and energy that was used to create the fantasy in the first place. The adverse effect is that man places values on his illusions, and overvalues what is not true, or no longer exists. In order to clear these errors in thinking, man must release the emotion that keeps him tied to his false reality. The removal of illusion or fantasy involves understanding that expectations are not failed, but false. With this recognition comes an opportunity for change.¹⁷⁰

Paradise Lost, a poem written by John Milton, chronicled a series of defeats and disillusionments. Most prominent was his loss in faith in the idealism of the early Commonwealth. Milton saw the righteous cause of the English Revolution destroyed by evil forces along with the dreams of republicans like himself. The restoration of Charles II after the fall of the Commonwealth was just the beginning of change in 17th century England. The real change was heralded by the Glorious Revolution of 1689 with the arrival of William and Mary at the invitation of parliament. The new parliament separated the dominant institution of the day, the church, further from the process of government to reduce the church interference in the government. The Glorious Revolution marked the beginning of the Enlightenment, a movement to displace the dogged adherence to established opinions and customs, and to enlighten a population that the system had kept in the dark. The Enlightenment introduced critical thinking to replace the dead weight of tradition and challenge the blind faith in institutions. In the 17th century the church was the dominant institution, while in the 21st century the corporation is the dominant institution.¹⁷¹ In the 21st century there is a need to challenge the blind faith and convictions in the present deregulated market, to understand that the old way is no longer viable, and that it is necessary to introduce interventions to reduce the influence of the dominant institution, the corporation, in government affairs. These interventions need to be specifically directed at the financial services industry to prevent the next round of boom or bust, and the next round of mega dollar taxpayer funded bailouts.

Chapter 7

On Property and Competition

In Rousseau's analysis, it is free will that separates man from animals. He rejected the notion that property is a natural right – the discovery of which was a great boon to mankind. He believed ownership of property leads to the development of the faculties of reason, memory, and imagination. Man is activated to develop these faculties in his effort to hang on to the property he has, and get more. The way to create the right conditions in which liberty can flourish, argued Rousseau, is to equalize property. Then men can be truly free. The best society, in his view, is one in which all citizens have a little – property and no one has a great deal. Men should have enough property to secure them a comfortable living and no more.¹⁷² These ideas are similar to those of Aristotle. Aristotle said that there are two sources of civil discord: the arrogance of the wealthy aristocrats, and the envy of the poor commoners. He proposed to solve the problem of civil discord by creating a strong middle class, with enough property that they would not be envious and yet not so much as to make them arrogant.¹⁷³

John Locke (1632-1704) was greatly disturbed by the civil disorder that had prevailed in England much of his life; the pressing question was how to achieve peace and stability. It was in such a spirit that Locke welcomed the Restoration, even though he was a Puritan and once supported Cromwell. The political climate changed and, through his writings, Locke became an apologist for the Glorious Revolution. Locke wrote on religious toleration that included separation of church and state. He believed there should not be any governmental effort to promote or to restrict particular religious beliefs and practices.¹⁷⁴ He developed a theory of natural law and natural rights, which he used to distinguish between legitimate and illegitimate civil governments, and to argue for the legitimacy of revolt against tyrannical governments. Locke's insistence on property as a key element in his call for 'rights' set him apart. In 18th century England, there were gradations in personal freedom, as property ownership restricted the electorate to less than 5% of the male population.¹⁷⁵

Locke's philosophy was an extremely individualistic one. The individual man was the judge of all things. Man had to relate himself to the universe through knowledge. Locke believed experience was the basis of all knowledge. With respect to knowledge, experience of the individual was fundamental to the development of his mental facility. An individual using his own reason could distinguish truth from opinion, illusion or falsehood. Locke's individualism was an issue confined to government – if government could be based on rational individuals, as opposed to sacred morality, then a decent civil government would emerge. The individualist problem was solved by recommending limited government and assuming innate morality. The perfect man, in Locke's image, was the completely rational man.

Locke rewrote England's Poor Laws from the viewpoint of an individualist who considered poverty a vice. (During the 1780s, there was an increase in unemployment and underemployment due to high food prices, low wages and the effects of enclosing land.) He wrote, "It will be no excuse to an idle and untoward servant, who would not attend his business by candlelight, to please that he had not broad sunshine."¹⁷⁶ The social Darwinists of the 19th century could identify with this statement.

Locke's philosophy claimed the human mind at birth was a blank, a *tabula rasa* (erased board). This view of humans meant that every human being enters the world with all the same capacities. No one is by virtue of birth more moral or knowledgeable than anyone else. Since all moral behavior arises from one's empirical experiences, that means that immoral behavior is primarily a product of the environment, rather than the individual. If you accept that line of reasoning, that means that you can change moral and intellectual outcomes in human development by changing the environment. Locke proposed that education above everything else was responsible for forging the moral and intellectual character of individuals; he proposed, in part, an extension of education to every member of society. This view of education still dominates Western culture to this day.

A key word in Locke's philosophy was reason. For him reason served as an instrument to create intellectual order. Reason also served to control and order political life. Because of the fragmentation of chaos, men use their reason to bring about some sort of order. Locke divided the formation of civil order into two aspects. In one, called the social community, men come together to form a rational community to protect their property (which to Locke meant life, liberty and real estate). They join together to protect their individual rights and govern themselves by the law of reason. The second aspect was called civil government and represented the central power needed to govern the community. Men establish a civil government to be an executor of their wills. Although they relinquish power to the government, men do not relinquish their rights; the government is supposed to preserve their rights. There was a good reason to separate the social community from the civil government. As a citizen of the 17th century, he disliked both royal absolutism and radical revolution. Both, Locke felt, were destructive of the rule of reason. Tyranny destroys the rule of reason from above and revolution destroys it from below. Tyranny violates those rights that the rational community is set up to protect but it does not destroy order. Revolution, although it does not destroy those rights, destroys the order upon which these rights rest.¹⁷⁷

John Locke expressed that "no one ought to harm another in his life, health, liberty, or possessions,"¹⁷⁸ and became the most often non-biblical writer quoted by the Founding

Fathers of the US. The American colonists' resentment grew as they were influenced by ideas of the Enlightenment, such as the theory of natural rights promoted by John Locke. Thomas Jefferson substituted "pursuit of happiness" for "property" in the United States Declaration of Independence. It was the right of human beings to follow their nature.¹⁷⁹

The English philosopher, Thomas Hobbes (1588-1679), applied new methods to human sciences. Since all human beings were selfish, this meant that no person was really safe from the predations of his or her fellow beings. In its natural state, humanity was at war with itself. Individuals battled other individuals in a perpetual struggle for advantage, power, and gain. Hobbes argued that the society was a group of selfish individuals that united into a single body in order to maximize their safety to protect themselves from one another. The primary purpose of society was to maximize the happiness of its individuals. At some early point, individuals gathered into a society and agreed to a "social contract" that stipulated the laws and rules they would all live by.

Human beings, however, could not be trusted simply to live by their agreements. For this reason, authority was created in order to enforce the terms of the social contract. The creation of authority, by which Hobbes meant a monarch, transformed society into a state. For Hobbes, humanity was better off living under the circumscribed freedoms of a monarchy rather than the violent anarchy of a completely equal and free life. Hobbes felt that by nature, people were self-serving and preoccupied with the gathering of a limited number of resources.¹⁸⁰

Unlike Hobbes, Locke believed that natural law dictated that all human beings were fundamentally equal; he derived this argument from his theories of human development. Since every human being walked into the world with the same capacities as every other human being, that meant that inequality was an unnatural result of the environments that individuals were forced to live in, a belief that still underlies the Western notion of human development. Human beings have a natural inclination to preserve their equality and independence, since these are natural aspects of humanness. For Locke, humans entered into social contracts only to help adjudicate disputes between individuals or groups, and the purpose of authority was to protect human equality and freedom; this is why social groups agreed to a "social contract" that placed an authority over them. When that authority ceased to care for the welfare, independence, and equality of individual humans, the social contract was broken and it was the duty of the members of society to overthrow that ruler.

Professor W. H. Hutt, an economist and liberal thinker, explained:

"In *Civil Government* Locke expounds the individualistic view of private property, and again lays down the quintessence of individualism. The great and chief end, therefore, of men's uniting into commonwealths, and putting themselves under government, is the preservation of their property. He qualifies his theory of a Social Contract, Compact, or Covenant, by pointing out that 'men when they enter into society give up...liberty of a kind; yet it being only with an intention in every one the better to preserve himself, his liberty and property,' the power conferred can never be supposed to extend farther than the common good, but is obliged to secure everyone's property, etc., etc. This artful qualification of the common good, serves as a complete defense of the 'Glorious Revolution,' which gave us effective parliamentary government."¹⁸¹

Kant

Immanuel Kant is regarded as one of the most influential thinkers of modern Europe and of the late Enlightenment. Kant makes enlightenment a question of conscience. Enlightenment, in Kant's view, was the breaking out of immaturity and thinking for one's self. In the state of immaturity one was incapable of using his reason for himself on his own. One should use his intelligence without being guided. He should use it freely, not in the service of any authority. Dare to know; have the courage to use your own intelligence. He argued valid ethical rules and standards cannot come from outside a person, but have to originate from a person's active reason. It comes full circle—accepting passive direction from outside one's own reason would be a sign of immaturity and moral irresponsibility. Individual self-determination, that one should have the courage to use his own intelligence, is the feature of his philosophy that made him a typical and leading Enlightenment thinker.¹⁸²

From Rousseau, Kant accepted the concept that what separated men from animals was free will. To this Kant added reason. To be free is to follow our own rational principles instead of just our desires. We follow our own legislation, and act using maxims that we will to be universal laws. To be free is to be moral. We can't explain free will, but we know we are free by knowing that we have duties. Such actions create moral worth – the basis for dignity of the human person as an end in itself. Reason imposes its own abstract formal laws on our actions. A rational will must be regarded as autonomous. The self-governing reason in each person then can view each as possessed of equal worth and each deserving respect. Free will determines the direction taken (without the pressure of particular interests) and requires following laws of purest generality.¹⁸³

Through the competitive struggle of man against man, the natural facilities of man are developed. Without man's quarrelsomeness, his enviously competitive vanity and his insatiable desire to possess and rule, said Kant, man's excellent natural facilities would remain undeveloped. Kant explains the importance of nature: "The means employed in nature to bring about the development of all the capacities of men is their antagonism in society, in so much as this is, in the end a cause of lawful disorder among men."¹⁸⁴ Kant explained that by "antagonism" he meant "the unsocial sociability" of men, i.e. their propensity to enter into society, bound together with a mutual opposition, which constantly threatens to break up the society. In today's self-care models, we see this manifest as an individual's personal negotiation of the tension between selfishness and cooperation, desires and dissatisfactions, and perceived freedom and actual limitations. Kant said the individual wants "to achieve rank among his fellows whom he cannot tolerate, but from whom he cannot withdraw."¹⁸⁵ This antagonism or competition amongst individuals, Kant believed, is what drives the individual to perfection.

Harold J. Foster explains:

"It is nature's intention, Kant maintains, that man should secure his goal 'only in a society which not only possesses the greatest freedom and hence a very general antagonism of its members but also possesses the most precise determination and enforcement of the limit of this freedom so that it can coexist with the freedom of other societies: this will serve the highest purpose of nature.' We want freedom in society, says Kant, we want clash, competition, for this is the lifeblood of society – the mechanism by which

nature drives us to perfection. However, the more freedom allowed to men, the more force that is needed to control them. The just society must contain a maximum of natural right, coupled with a maximum of force to prevent the misuse of natural right. License must be prevented. Man needs freedom in order to develop his distinctive qualities, but the more freedom man has, the more restraint it needs. Part of the growth of man as a free, rational being is his coming to recognize the need of some force to control his freedom. ”¹⁸⁶

It is clear that practical reason was the foundation of Kant’s moral philosophy. Reason was to replace blind faith and superstition in religion, autocratic and arbitrary rule in administration and government, brute force and devious cunning in politics, the dead weight of tradition in social institutions and culture, and primitive instincts or uncontrolled feelings in personal relations and ethics. A key requirement was freedom to make public use of one’s reason in all matters. With private use of reason, there is no freedom and a person is accountable to a superior such as public servant. In the public use of freedom, one is not under the tutelage or control of another and can speak as a member of society. In such a system, judgments and principles are only reasonable to the extent that they can be accepted by all – which means, among other things, that they cannot assume the authority of any particular organization or leader. Reason is autonomous and submits to no external authority; it gains authority from submitting itself to critique; and critique involves rejecting any mode of thinking or acting that cannot be adopted by all.

According to Kant, the purpose of the state was not to make individuals good, but to enforce laws of justice. Accustoming individuals to obey laws that regulate their external relations would impose an outer discipline that prepared the way for an inner discipline of morality. Similarly, Allen Rosen, formerly an Assistant Professor in Philosophy at Queen’s University, explains, “Arts, science and commerce do not directly make individuals good, but their civilizing influence promotes the development of rationality and helps release human beings from the ‘tyranny of sense’, thereby preparing human kind for ‘higher purposes.’”¹⁸⁷ Man’s purpose, Kant claimed, was to develop fully his capacities for reason and freedom (free will).

Kant’s theory of history, which was based on various themes prevalent during the 18th century, concluded that war and competition sharpens and deepens our understanding of nature and of ourselves. This in turn will guarantee the conditions for peaceful competition and flowering of all human talents. For Kant, civilization was the product of controlled antagonism. Rationality could best be developed through an antagonistic, and competitive social and economic relations. Human beings were predominately competitive, selfish and acquisitive creatures. Egotistic impulses, that made it impossible for human beings to co-exist peacefully in the state of nature, would become the driving force of economic and cultural progress, once they were properly harnessed. Conflicting individual passions and interests would be channeled so that they could become the mainspring of progress. All of this was held together by the idea of individual freedom. Allen Rosen claimed, “Human beings must be permitted to pursue their own private ends, no matter how self-serving they may be, for the pursuit of these self aims, when properly constrained by public laws produces the development of

individual talents rationality and culture in general.”¹⁸⁸ Economic competition, civil society and culture play a role in bringing discipline to the unruly senses and impulses.

Adam Smith

Adam Smith’s belief that competition, the market’s invisible hand, would lead to proper pricing, played a large role in the development of his economic theory. Smith argued that it was market forces that ensured the production of the right goods and services. As long as markets grew, an increased demand for labor would prevent owners from exploiting the workers.¹⁸⁹ This would happen because producers want to make profits by providing them goods. His ideas supported minimal government intervention, thus supporting laissez-faire economics. Folklore suggests that the term was derived from the answer Jean-Baptiste Colbert, Controller General of Finance under King Louis XIV of France, received when he asked industrialists what the government could do to help business: “Leave us alone.”¹⁹⁰ In general, public well-being would increase from competition organizing production to suit public demands.

The neo-classical system (traced back to Adam Smith) was self-equilibrating system which operates according to discoverable economic laws (like Newtonian physics). Adam Smith believed that competition, the market’s invisible hand, would lead to proper pricing played a large role in his economic policy recommendations. Smith’s support of competition remained contingent on the fact that it encouraged economic growth, something Smith felt would benefit all members of society. He proposed that as long as markets grew, an increased demand for labor would prevent owners from exploiting their workers.¹⁹¹

For the system to function effectively, Smith identified two requirements; one was that the market needed to be free of government intervention, and the other was that there had to be competition. While Smith is celebrated for his one time reference of “an invisible hand” in his prodigious works, throughout his writings he documented the danger of monopoly:

“A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.”¹⁹²

A significant part of Smith’s writing condemned the restrictive practices of the “mercantile system” of his day, which favored monopolies. His message was that the monopoly system was a threat to the free market system.

Friedrich Hayek

Friedrich Hayek admired Adam Smith and built upon the ideas of his teacher, von Mises. Hayek had a major influence on market liberalization strategies, which included discrediting government economic planning. His polemic against socialism and

communism supported the rapidly growing anti-communism that dominated the Cold War. In *The Road to Serfdom*, he declared:

“The liberal argument is in favour of making the best possible use of the forces of competition as a means of co-coordinating human efforts, not an argument for leaving things just as they are. It is based on the conviction that, where effective competition can be created it is a better way of guiding individual efforts than any other... And it regards competition as superior not only because in most circumstances the most efficient method known but even more it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority... An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other. Even the most essential prerequisite of its proper functioning, the prevention of fraud and deception (including exploitation of ignorance), provides a great and by no means yet fully accomplished object of legislative activity.”¹⁹³

Hayek’s definition of competition as a spontaneous order provided a more dynamic definition than the more passive neoclassical concept of reaching equilibrium.

Hayek’s main message was that “planning” was not to be substituted for competition, but to create conditions in which competition could be as effective as possible. Hayek said the market required, “a legal system designed to both preserve competition and to make it operate as beneficially as possible.”¹⁹⁴ He noted a role for government, “where it cannot be made effective, to provide the services which, in the words of Adam Smith, ‘though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals,’ these tasks provide, indeed, a wide and unquestioned field for state activity.”¹⁹⁵ Hayek’s theories on minimal government were popularized by Margaret Thatcher and Ronald Reagan.

Thorstein Veblen and Douglass North

Thorstein Veblen (1857-1929), an American economist and sociologist, wanted to instill an element of science into economics and move it from the social sciences closer to physics by using the analogy to evolution. He believed the changing system was driven by the innovation (of engineers). He introduced evolutionary economics combined with institutional approach to economics (focusing on the individual). In the late 19th century, he warned that small scale, competitive capitalism was giving way to large scale monopoly trusts which were charging what traffic would bear and limiting product in other cases. Like Kant, he focused on the antagonism in society.

For Veblen, analysis of economy involved human nature which consists of fundamental tension and antagonism. In every culture one could observe two aspects of human nature – one promoting the economic process, and one that inhibits development of the productive powers of society. He developed these theories during the rise of the monopoly trust, when making profits can conflict with making goods.¹⁹⁶

Douglass North, an American economist known for his work in the history of economic thought, is the co-recipient (with Robert William Fogel) of the 1993 Nobel

Memorial Prize in Economic Sciences. North, a champion of institutional economics, casts doubts on many traditional explanations of economic growth, arguing that factors, such as technical change and innovations, are less important than previously claimed by mainstream economists. He puts more emphasis on legal and social institutions, such as property rights, patent laws, legal obligations, which provide to the people right and proper inducements to undertake economic activity. He strongly contends that “one cannot leave development only to markets.”¹⁹⁷ It is necessary to have in place a set of property rights and enforcement in order to produce the competitive market conditions.

For North, institutions are the rules of the game that structure human interaction, in which competition plays an important role. North describes:

“Competition forces organizations to continually invest in skills and knowledge to survive. The kinds of skills and knowledge individuals and their organizations acquire will shape evolving perceptions about opportunities and hence choices that will incrementally alter institutions.”¹⁹⁸

The rate of learning depends on the intensity of competition amongst organizations. While scarcity drives competition, monopolies will reduce competition along with the degree of learning. In *Understanding the Process of Economic Change* North writes, “There is no such thing as laissez-faire... You do not get government out of it. What you try to get government, either by rules and regulations and property rights, or indirectly, to do, is to structure the game so you force the players to compete by price and quality rather than compete in other ways.”¹⁹⁹ It is not just competition between people, but really the competition of ideas, values and beliefs. Competition is the source of institutional change.

North observes, “The institutions and beliefs of the past have an enormous effect on constraining the ability to make change in the present and the future.”²⁰⁰ One’s perception of the world can affect the rate of change in economic systems. The rationality assumptions of the Hayek-Friedman teaching is repeated over and over again to students in business schools. For this reason economic institutions change slowly. This is reinforced by the fact that many economists can derive models based on information from the past. North warns that such tools run the risk of creating models or projections that will be wrong, as the environment is always changing.²⁰¹

Competition was an important concept behind capitalism, and support can be found in the writings of Kant, Smith, Hayek and North. Ideally, successful competitors focus on reality, inventions, innovations, materials and methods through innovation, producing product at lower and lower prices. Competition is a core value of the present free market system, and any new system must ensure this characteristic thrives. John Locke popularized the idea of ‘natural rights’ that supported property rights and parliamentary government. This theory supported property rights in the West, and became part of the development of responsible government, as well as the capitalist system. Locke developed ideas on how individuals respond to abuse of power. When mistakes are made in the governance of the commonwealth, Locke believed, its citizens are bound to protect themselves by withdrawal of their consent, and only the people can decide if society has unduly interfered with their property interest.²⁰²

Chapter 8

The Threats

It's no secret that implementing change is more than just about communication. Change is not the problem; resistance is, arising from individuals' perceptions. Change is perceived as a threat, that something bad is going to happen, or vulnerability will be exploited to the detriment of the system. The economic debacle of 2008 was a wake-up call to those who believed the increasingly deregulated financial system was fine. The rise of the banking oligarchy and the fall of the markets in 2008 delinked the New American Dream (to make tens of millions of dollars on Wall Street) from the Old American Dream (to own one's own house). The power of an oligarchy often comes at some sort of expense to those governed. Two years after the meltdown, the New American Dream exists while the Old American Dream's existence is an illusion.²⁰³ The playing field is not level. It is important for the middle class to continue to believe in the Old American Dream. Vested interests need to keep the dream of home ownership alive for all, to ensure the status quo. Preserving the idea that big banks are good will prevent the system that makes them rich from unraveling. This chapter reviews many of the processes that support the status quo for the large banks.

One of the greatest hurdles to change lies within the individual. There are psychological explanations to why people refuse to accept new information and ideas. Cognitive dissonance relates to the concept of being exposed to information or having experiences that conflict with our existing base of 'what we know.' The theory holds that our minds are not always flexible or rational when it comes to evaluating uncomfortable information or questioning our own beliefs. The theory holds that 'dissonant cognitions' will cause us to dismiss, or alter conflicting information, or add justification to one side or the other—not necessarily rationally—in order to regain psychological balance. It's an important concept to consider in terms of the way people block things out or justify things to themselves. If there is a significant psychological stake in a certain position or

attitude and a piece of solid evidence comes in which conflicts with that position, it may be easier, psychologically, to dismiss the new information than alter the existing thinking. John Kenneth Galbraith (1908-2006), one of the most widely read economists from 1950s to 1970s in the United States, noted, “When people are least sure, they are often most dogmatic.”²⁰⁴

During the last two decades, there has been a strong anti-intellectual movement amongst conservatives in the US, connected with nominating candidates ‘just like them,’ which can mean someone as out of touch with the wide world as they are. This mindset supports anti-intellectualism with hostility and mistrust of intellect. Anti-intellectuals often perceive themselves as champions of the ordinary people and fighters for egalitarianism against elitism. Those who mistrust intellectuals will represent them as a danger to normality, suggesting they are outsiders with little empathy for the common people. Experts and science are the enemy – lumped together as ‘ivory tower intellectuals.’ Part of the appeal of George W. Bush was he appeared to be more in touch with the common man. In this anti-intellectualism the common people are oppressed by corrupt privileged elites. These elites are ivory tower educated and are perceived arrogant and cold and not in tune with the average person. Anti-intellectuals pride themselves on not thinking, on not using their reason. They are everywhere. The Internet provides a powerful medium (opportunity) to share and communicate anti-intellectual ideas. Anti-intellectuals do not value education as an intrinsic good, but value it as a means. Education is viewed as necessary for getting a job or increasing one’s salary. They don’t consider knowledge more than a meal ticket. Neo-liberalism supports anti-intellectualism as it values production and thrives well in the cult of self-esteem and extreme individualism. Understanding is replaced with personal dogmas and instant gratification. Anti-intellectualism is supported by domination of culture by the mass media. Mostly white, undereducated, and underemployed, the Tea Party movement has become the poster child for American anti-intellectualism. Generally the Tea Party members do not understand changes going on in the world, and do not want to change themselves.

The conservative libertarian has at his disposal the wedge issue, a social or political issue which splits apart or creates a “wedge” in the support base of one political group with the hope of attracting or disaffecting a portion of an opponent’s customary supporters. An example of a successfully employed wedge issue is the Contract with America program. The “contract” called for efforts to end federal aid to the arts and humanities, restore school prayer, restrict abortion, limit pornography, and provide tax breaks for parents who send their children to private or religious schools. In elections they focused on family issues and turned homosexuality into an election issue. In the lead-up to the 1994 congressional election, this allowed the Republicans to avoid debating the economy, with a well executed wedge issue. Today, the Republicans could use wedge issues to pull in Latino and African American voters by appealing to their church and faith groups, and use social issues to obscure immigration and poverty issues, and win votes.

Johnson and Kwak, in *13 Bankers: The Wall Street Takeover And The Next Financial Meltdown*, described an oligarchy consisting of the large banks that have access to politicians in Washington, known as the Wall Street-Washington corridor. The financial sector has lots of money, and profits accounted for 30% of all domestic

corporate profits from 1998 to 2007.²⁰⁵ Besides money, the banks' powers come from being able to place their people in key positions in Washington. Johnson and Kwak note:

“As the big banks became richer, more of their executives became top-tier fund raisers who could be tapped for administration jobs...as the world of finance became more complicated and more central to the economy; the federal government became more dependent on people with modern financial experience – which meant people from the big banks and from their cutting-edge businesses. This constant flow of people from Wall Street to Washington and back ensured that important decisions were made by officials who had adsorbed the financial sectors view of the world and its perspective on government policy, and often saw their future careers on Wall Street, not in Washington.”²⁰⁶

The financial sector is the leading donor to election campaigns, both Democrats' and Republicans'. The revolving door of senior managers between Wall Street and regulatory agencies creates a tremendous opportunity to influence regulations on banking. In addition, in the last two decades, money has been devoted to rebranding banks as centers of innovation providing important contributions to home ownership. There exist people with unwavering support of need for the of existence large banks to ensure the success of the US free market system.

The cult of self-esteem provided a milieu for extreme individualism to thrive when the bar was lowered in schools with the self-esteem movement in the 1980s, which created a group of people with high self-esteem who were impervious to criticism. Today, the cult of self-esteem has migrated from the schools into the workplace. In the cult of self-esteem, a sense of entitlement gives people the perceived high ground; at the same time, they experience a declining sense of personal responsibility. When there is too much self-esteem, there are problems of self-tolerance, entitlement and narcissism. Narcissism is an excessive form of self-love that leads to a sense of entitlement and selfish world view. Everyone and everything are mere instruments and objects available for pursuit of narcissistic gratification. This narcissist believes that rules do not apply to them and they deserve special treatment. They lack respect for authority and habitually lie to people. Corporate executives award themselves exorbitant salaries.

Conservative libertarians use ideas developed by Friedrich Hayek. In *Road to Serfdom*, Hayek described a connection between economic control and totalitarianism. The connection between economic control and freedom:

“The economic freedom which is the prerequisite of any other freedom cannot be the freedom from economic care which the socialists promise us and which can be obtained only by relieving the individual at the same time the necessity and the power of choice; it must be the freedom of our economic activity which, with the right choice, inevitably carries the risk and responsibility of that right.”²⁰⁷

In other words, there is a threat to other freedoms with any reduction in economic freedom. In the 21st century, conservative libertarians own this idea. It appears in their debates on any issue that proposes an increased role of the government.

Hayek described a relationship between socialism and Nazism. Socialists and National Socialists co-existed in Germany prior to World War I. With the unrest during

the Weimar Republic, the parliamentary government set up in Germany between 1919 and 1933 to replace the imperial government after the war, the socialists and National Socialists came together. Hayek notes, "From 1914 onward there arose from the ranks of Marxist socialism one teacher after another who led, not the conservatives and reactionaries, but the hard working laborer and idealist youth into the National Socialist fold. [This led to] the union of anticapitalist forces on the Right and the Left, the fusion of radical and conservative socialism."²⁰⁸ Now, anytime there is a threat of increased regulation, libertarian types issue a shrill warning flagging that socialism, and possibly Nazism are at the doorstep. America of the first decade of 21st century has nothing in common with the Weimar Republic of the 1920s, where well organized socialists harnessed dissatisfaction of the people to their political advantage. By creating panic it is possible for others to get inside people's heads with simple doctrines.

When objectivism, a philosophy of reason, individualism, respect for achievement and freedom, was evolving, the threat to the free world was the Communist bloc. During the Cold War it appeared that two economic systems were able to compete in the world; one led by the former Soviet Union and the other by the United States of America. During this period, objectivism equated freedom with capitalism. It was believed that for capitalism to exist a government would need to provide their citizens with freedom. During this period there was no philosophical system that supported capitalism. Rand asked, "Are men free? Throughout history, capitalism is the only system that answers yes. Capitalism is a social system based on the recognition of individual rights, including property rights, in which all property is privately owned."²⁰⁹ The capitalist free market equals freedom. According to Rand, freedom means only one thing – the freedom from the threat of physical violence, and it is the role of the state to ensure that freedom.

In the *Only Path to Tomorrow*, a short article by Ann Rand that appeared in 1944 in *Readers Digest*, Rand declared, "The greatest threat to mankind and civilization is the spread of the totalitarian philosophy. Its best ally is not the devotion of its followers but the confusion of its enemies. To fight it, we must understand it."²¹⁰ Totalitarianism was about subjection of the individual to the group. Dictators claim to act "for the common good."²¹¹ And under this banner the common good commits many horrors. Most men are not enslaved by guns, but by philosophical ideas, such as the supremacy of the state over the individual. The opposite of totalitarianism or collectivism is individualism. Rand claimed, "The American system is founded on individualism."²¹² In order for this system to survive it is necessary to understand the principles behind it. The first premise is that "altruism" (or common good) is evil and threatens to undermine individual rights. The source of progress in history is the story of the individual man who was happiest when free from the power of the collective or government. Rand declares, "Civilization is the process of setting man free from man."²¹³ Tomorrow belongs to the individualism and the right of liberty, Rand said, which means men's right to individual action, individual choice, individual initiative and individual property. Without the right to private property, no independent action is possible. In this manner Rand fended off the threat of the communism of her day, and, in turn, libertarians in 21st century fend off any hint of increased government control.

There are two types of support for conservatives in the media. There is the subtle support for globalization with advertising that drives consumerism. Social marketing supports narcissism and social media marketing by business with creative contests

popping up all over the web. In addition, the corporations have provided funding to the think tanks to produce reports that support the principles behind globalization, such as messages supporting minimal regulation. The other support comes from media ideas typified by Fox News with obvious bias to corporations and conservative values. This activity counters any cognitive dissonance that occurs in individuals, from the negative fallout of the economic debacle, to the lack of reasons to go to war in Iraq. This misinformation provides the necessary cognition to prevent the individual from changing his view or ideas around globalization or conservative political messages, and prevents such individuals from being swayed by new ideas in opposition to the failure of the financial services industry or poor decision-making of big oil companies.

Pluralism in politics is about acknowledgement of diversity. In a pluralist vision, though, members of most groups will share the most important meanings that hold society together; they may, however, disagree on customs and the choice of lifestyle. The theory is that political power in society does not lie with the electorate but is distributed between a wide number of groups. In democratic politics, pluralism is a guiding principle which permits the peaceful coexistence of different interesting convictions and lifestyles. In this system it is imperative that members of society accommodate their differences by engaging in good-faith negotiations. Pluralism also implies the right of individuals to determine values and truths for themselves, instead of being forced to follow the whole of society. The common good, the ideas of individuals and groups to ensure that all the wants and needs of society are taken care of, is established within the pluralistic framework. In oligarch society, where power is concentrated and decisions made by a few members, there is not widespread negotiation or participation or ownership in decisions.²¹⁴

Then there is the real world. America's anti-pluralist conservatives have celebrated private enterprise as both efficient and virtuous, and have exempted capitalism from cultural corruption. The anti-pluralist conservatives, unlike libertarians, care about the purpose government is put to, such as supporting family issues, not the size. Anti-pluralism gave the right a mass base along with passion that economic conservatism lacked.²¹⁵ In pluralism, politics and decision-making is located mostly in governmental framework, but many non-governmental groups use their resources to exert influence. The existence of diverse and compelling interests is the basis for democratic equilibrium, and is crucial for obtaining goals by individuals. People are powerful because they control various resources. The Wall Street oligarchy is indifferent about pluralism because of their efficient use of money in influencing government decisions. When you have access to power, it is not necessary to be concerned about the process of dialogue and encounter, give and take, criticism and self-criticism.

Economic globalization has helped spread the ethics of individualism. This individualism drives materialism and cosmopolitanism, in which cultural trends have become a significant aspect worldwide. Modernity is associated with abstract social groups, such as corporations. For modern cultures, the future opens up a vast field of historical and lifestyle changes. This leads to a proliferation of alternatives, which creates anxiety as the alternatives become unmanageable. Globalization re-enforced this feeling of being unable to control events. To many with a sense of disarray in the economy, the general feeling of uncertainty and job insecurity accelerates. They feel betrayed by the economic system and become angry over government bailout of the banks, and ongoing

huge bonuses paid on Wall Street. This group can be recruited to any side promoting change. The market fundamentalists can appear as progressive because their ideas are packaged in opposition to the existing system. In the US after the 2008 debacle, the right has been most successful in tapping this anger.

In the free market system, free, rational individuals use reason to determine what furthers their own self-interest, with financial reward a motivation to enhance effort. Ayn Rand described how reason drives the process of thinking:

“Reason is the faculty that identifies and integrates the material provided by man’s senses... Since reason is man’s basic means of survival, that which is proper to the life of a rational being is the good; that which negates, opposes or destroys it is the evil... Productive work is the central *purpose* of a rational man’s life, the central value that integrates and determines the hierarchy of all his other values. Reason is the source, the precondition of his productive work – pride is the result. Rationality is man’s basic virtue, the source of all his other virtues... The virtue of *Rationality* means the recognition and acceptance of reason as one’s only source of knowledge, one’s only judge of values and one’s only guide to action.”²¹⁶

Objectivists believe perception is the only form of reality that there is. Rand said, “A perception is a group of sensations automatically retained and integrated by the brain of a living organism, which gives its ability to be aware, not of single stimuli, but of entities, things.”²¹⁷ Reason integrates all perceptual data into concepts and principles.

Hayek claimed that economic theories can “never be verified or falsified by reference of facts. All we can and must verify is the presence of our assumptions in the particular case.”²¹⁸ Because of the freedom of choice, the Austrian School of Economics promotes a priori knowledge in logic, or knowledge that exists in a person’s mind prior to, and independent of, outer world experiences. From *A Critique of the Austrian School of Economics* it is noted that the Austrian school does not apply real world observations, rather:

“Austrians get to critique the real world, but the real world is prevented from informing their theories... meaning they are allowed to call the government ‘bad,’ without being held down to the statistics that would verify their claim... The problem with rationalism is that it makes the search for truth a game without rules. Rationalists are free to theorize anything they want without such irritating constrictions as facts, statistics, data, history or experimental confirmation... Theories ungrounded in facts and data are easily spun into any belief a person wants.”²¹⁹

Both Austrian economics and objectivism follow rationalism and support laissez-faire capitalism. Objectivism could be considered the logical philosophical and ethical extension of Austrian economics. Austrian economics and objectivism fit very well as two aspects of the same world view.²²⁰

According to rationalists, knowledge is acquired by finding principles that can be known directly by reason, and then deriving all other knowledge from these principles. The problem with rationalism is that it tends to leave out the facts. Reality is complex and facts have many facets that one must consider to form knowledge. For objectivists, the moral purpose of one’s life is to pursue one’s own rational self-interest, and the only

moral, social system of support is laissez-faire capitalism. Objectivity is a method of evaluating knowledge based on whether it conforms to reality or not. For the objectivist, all reality is objective and external to the mind, and knowledge is reliably based on observed objects and events. In this system, rationality is the virtue of understanding the world in order to effectively live in it.²²¹

Claims of objectivity can be considered as a means of presenting one's own ideology as a screen for an established fact. Knowledge that is pluralistic is incompatible with the concept of one objective reality. The advancement of technology, such as the Internet, and the prevalence of the twenty-four hour news media means that new ideas will be heard with ever greater clarity. Such an unregulated system creates a challenge for individuals seeking trusted information for such things as self-care. On the other hand, the conservative libertarians have their own media to ensure any new ideas that do not support their dogma are countered, such as reassuring everyone that cutting taxes and small government will address economic issues, and that everything will be fine. Since the turn of the 20th century, there has been a belief that technology and reason could make us masters of our own environment, but now we realize we bought into an illusion.²²²

Chapter 9

A Way Forward

Despite all the euphoria of the 1990s, when communism fell and capitalism was anointed the winner of the Cold War, a hard look at the economic and social conditions of the world in the 21st century reveals that the present system of capitalism, supported by the concept of progress through reason and science, appears to be defective. In response to the Enron debacle, the biggest business scandal in a generation, business schools introduced ethics courses and the US congress passed the Sarbanes-Oxley Act for increased oversight and transparency in financial reports. Within a decade, the financial system imploded. In defense of capitalism, Ayn Rand claimed, “Another current catchphrase is the complaint that nations of the world are divided into ‘haves’ and ‘have-nots’. Observe that the ‘haves’ are those who have freedom, and it is freedom that the ‘have-nots’ have not.”²²³ Today the validity of this statement is challenged by the expanding economic growth in structured environments such as China, which has been growing at a significantly faster rate than North American markets. It appears that a market can thrive under the limited freedom of a dictatorship—another principle in objectivism challenged.

The ongoing global financial weakness underscores the inequality, fragility and unpredictable future of the capitalist economic system. Supporters of objectivism have lost track of the fact that Locke and Smith assumed an innate morality to support their systems of minimal government. Everyone is aware that Hayek’s definition of the dynamic process of competition will not stand up to monopoly or oligarchy manipulations of the market. The packaging of the bad with good mortgages and reselling and insuring against failure, along with the high level of manipulation, created the instability in the financial markets in 2007, and subsequently destroyed credit needed to keep the market system functioning.

In 2009, Joseph Stiglitz declared: “Today only the deluded would argue that markets are self-correcting or that we can rely on the self-interested behavior of market participants to guarantee that everything works honestly and properly.”²²⁴ The mortgage

crisis and subsequent fall in the market has created some important observations about the classical free market system. Alan Greenspan's admission, in the autumn of 2008, that the regime of deregulation he oversaw as Chairman of the Federal Reserve was based on a "flaw"; he had overestimated the ability of the free market to self-correct, and had missed the self-destructive power of deregulated mortgage lending.²²⁵ Others say that this is evidence that the free market system (of ongoing deregulation) is not working and requires significant regulation and oversight. This is consistent with the need for changes to address the threats to economic development to ensure that this does not occur again.

An economic crisis can force the rethinking of economic and political dogma. The economic climate will not turn around for some time, however, the legacy will be long lasting. There will be widespread social costs and, even in the recovery, many will never catch up. It is in such a climate that we look for a way forward. Three options will be reviewed: more of the same lower taxes and minimal government regulation, the Progressive Utilization Theory (PROUT), and the new institutional economics.

The conservative libertarians believe that freer markets are always better and tax cuts are the most effective way to boost the economy. They believe governments are always inefficient and incompetent, and privatizing government functions is the best and cheapest way to serve customers. Their answer to the crisis is to lower taxes even more. Conservative fundamentalists have no new ideas; they only appear as progressive because their ideas are packaged in opposition to the existing system. They turn back to the past for ideas to support their purposes. Market fundamentalism turns back to classical economics and supports 21st century corporatism with simplistic government policies. This format does not create a dynamic for discussion, rather provides a rigid framework for thinking. Examples of such corporatists' activities include the financial institutions making money off a monetary system that has no effective regulations from the government. The problem with dogma is it is the enemy of critical thinking and requires the suspension of questioning and suspension of normal faculties of skepticism that are essential for understanding the issues in order to move forward.²²⁶ The problem with changes to dogma is the need to admit some ideas have been wrong. All one needs to do is admit that circumstances have changed, and guess what? Circumstances are always changing.

The mantra of deregulation and small government has not provided ongoing economic growth for the middle class. The present economic instability will likely last all of a decade. Expectations were that investments would grow, and now the reality is that the level of support anticipated from pensions is false. This disillusionment, following the economic meltdown of 2008, created resentment and anger in middle class citizens as they realized that the American dream is no longer within grasp. While the status quo is an option, change is necessary to move forward, to prevent a repeat meltdown.

The next new system to be compared is the Progressive Utilization Theory (PROUT). The Progressive Utilization Theory is the basis for an economic system, which is an alternative to both capitalism and communism. PROUT was conceived by P.R. Sarkar in 1959 who introduced the concept of a decentralized, cooperative economic system built upon the principles of PROUT.

PROUT does not follow the concept of equal distribution, but rather advocates maximum utilization and rational distribution of resources. This provides incentives for increasing production, and maximizing the production of essential commodities, which

will ensure that the minimal requirements can be supplied to all. PROUT has no place for competitiveness or selfishness. Running the co-operatives would require someone who demands exact conformity to rules and forms. This would come up against the pluralistic nature of North America, as PROUT identifies limits over the accumulation of wealth. PROUT's three-tiered economic structure consists of government-owned key industries (oil industries, wind farms, etc), worker-owned cooperatives, and privately owned enterprises. The PROUT cooperative system is founded on the principle of "coordinated cooperation," where free human beings with equal rights and mutual respect work together for the welfare of all. According to Sarkar, cooperatives will succeed if they have ethical leadership, strong management, and the people's whole-hearted acceptance of the cooperative system. Moreover, members must have similar interests, share a common economic structure, and demand similar necessities. Lastly, cooperatives need availability of local raw materials and local markets for their goods and services.²²⁷

The features of the PROUT system include (1) guaranteed minimal requirements, (2) increasing purchasing capacity, (3) cooperatives, (4) industrial development, (5) decentralization, and (6) developmental planning. The PROUT guaranteed minimal requirements include food, clothing, shelter, medical treatment, and education for every human being. Once the minimal requirements have been guaranteed, the surplus wealth is to be distributed among those people having special qualities and skills, such as physicians, engineers and scientists because these people play an important role in the collective development of society. The level of minimal requirements should be progressively increased so that the standard of living of the common people is always increasing.²²⁸

Cooperatives are considered to be the best form of economic enterprise, because they are capable of seeking a balanced adjustment between collective spirit and individual rights. Under PROUT, co-operatives support personal ownership balancing social limitations on the concentration of wealth but including a mechanism to ensure a progressive increase in everyone's living standard. The ideal PROUT co-operative consists of members who are local people and process raw material from the local region, and are not dependent on foreign raw materials. In times of economic downturn, everyone's labor is to be proportionately reduced which will remove the stigma of unemployment. PROUT was designed to stimulate the poor to take responsibility for their own advancement, while ensuring everyone's ongoing success via democratic representation and by placing limits on how much wealth could be accumulated.²²⁹

Global competition requires fast response time to changing market conditions. Cooperatives adapt through mutual cooperation and federated support structures. As cooperatives operate more locally, they would not be pulled along as much by global economic changes. They would represent a more decentralized economy with less dependence on external markets and exposure to market shocks, an advantage of producing for local needs of local markets. In *The Shock Doctrine: The Rise of Disaster Capitalism*, Naomi Klein (born May 8, 1970), author and activist, concluded that the ravished economies of many Third World countries in South America and Africa were developing cooperative systems²³⁰ – consistent with the PROUT philosophy. In many cases micro loans are extended to members of producing co-operatives. The process helps small business owners, many in the Third World, to build or rebuild their personal credit history.

A third way to analyze the free market system was developed at the turn of the 20th century by Thorstein Veblen (the leader of the so-called institutional economics movement), combining sociology with economics. While neoclassical economics dealt with the interests of the individual, and socialism deals with the interests of the collective, Veblen rejected both. He believed in Darwinian evolution and selection of institutions and structures as emergent entities in the socio-economic sphere. He did not believe all change was progress and believed, in fact, vested interests held back growth of the economy. His followers developed support for the system applying a range of ideas. Today, new institutional economics incorporates a theory of institutions into economics while building on, modifying, and extending the neoclassical theory. In this system, an institution is comprised of the rules of the game: the humanly devised constraints that structure human interaction. New institutional economics applies scientific methods to focus on the economic impact of the evolution of the multi-disciplinary aspects of legal norms and rules that underlie economic activity.²³¹

In a 1992 article in the *American Economist*, Douglass North describes the characteristics of a new institutional economics. North's vision of new institutional economics is an attempt to incorporate a theory on institutions into economics. There is a need to join ethics to a potential structure applicable to the present. In his paper he describes such an institutional structure. He calls for new institutional economics for the development of legal framework to facilitate the market operating optimally:

“We are still a long way from completely understanding how the mind processes information... Individuals possess mental models to interpret the world around them. These are in part culturally derived – that is, produced by intergenerational transfer of knowledge values, and norms which vary radically among different ethnic groups and societies... There is immense variation in mental models and as a result different perceptions of the world and the way it ‘works’. And even the formal learning that individuals acquire frequently consists of conflicting models by which we interpret the world around us. Individuals make choices on the basis of their mental modes.”²³²

This system will never become a common theory or counter weight. The institutional approach views the system as a theory of choice subject to constraints by adding institutions as a crucial constraint. The main driver would be competition. This is the competition identified by Adam Smith, Emmanuel Kant, and F. A. Hayek. It is a key feature of an economic institution that North has described.

The classical free market system requires efficient markets to arrive at the lowest cost of transaction. However, in the real world this can only be achieved when the competition is strong, including a combination of efficient information feedback and arbitrage. For this efficient system, the players must have objectives, as well as know the correct way to achieve the objectives. The classical free market dictates that the players may initially have erroneous models, the information feedback process and arbitraging actors will correct these initial incorrect models, punish deviant behavior and lead surviving players to the correct models. North notes, “These are stringent requirements that are realized only very exceptionally.”²³³

For North, the new institutional economics “extends economic theory by incorporating ideas and ideologies into the analysis, modeling the political process as a critical factor in the performance of economies... Institutions are not necessarily or even usually created to be socially efficient, rather they, or at least the formal rules, are created to serve the interests of those with bargaining power to create new rules. Institutions are formed to reduce the uncertainty of human exchange.”²³⁴

The institutional system that North describes provides a framework on which to build the regulations necessary to create the oversight needed in the financial services industry. North identifies the requirement for rules or guidelines in institutional economics. This system includes natural rights that are balanced against determination and enforcement of freedom. (This is a right that exists even if it is not supported by society or enforced by government.) This component is the requirement for the maximum amount of freedom of the individual under enough regulation to prevent deviation from accepted standards. These rules will help in the area of conflict of duties, and include being developed around the eight characteristics of good governance published by the United Nations. These rules ensure transparency in decision making; a process to seek out the views of those who would be affected by its decisions or actions. For example, in the complex environment of selling mortgages, information would be transparent and individuals would not be manipulated into buying high-risk products, even though they qualified for less risky, regular mortgages.

In the 21st century, governance is promoted for proper decision-making. Governance means the process of decision-making and the process by which decisions are implemented (or not implemented). A United Nations paper, *What is Good Governance?*,²³⁵ identifies eight major characteristics of good governance. These are participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follow the rule of law. They assure that corruption is minimized, the views of minorities are taken into account, and that the voices of the most vulnerable in society are heard in decision-making, and are responsive to the present and future needs of society. The paper is a source for our descriptions of accountability and transparency:

“Accountability is a key requirement of good governance. Not only government institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. Who is accountable to whom varies, depending on whether decisions or actions taken are internal or external to an organization or institution. In general, an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law...that all groups, but particularly the most vulnerable, have opportunities to improve or maintain their well-being...Transparency means that decisions made and their enforcement are achieved in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It means that enough information is provided and that it is provided in easily understandable forms and media.”²³⁶

This United Nations guideline is promoted for those doing business anywhere in the world. There is nothing preventing these governance guidelines from being applied to the global financial services industry.

North describes the need for various feedback mechanisms:

“Makers of public policy can advance their aims if they are able to design, or facilitate, feedback mechanisms that inform or punish actors who operate with policy models, data, or even goals, that are inconsistent with public policy. A properly constructed competitive market provides effective feedback in terms of the aggregate wealth creation. Public policy can push economic enterprises in the direction of more efficiency by fostering various forms of competition and by providing suitable institutions for structuring exit and entry. Empirical evidence from various parts of the world, including China, indicates that not only private firms, but also various hybrid forms of organization will operate relatively efficiently in a competitive environment.”²³⁷

For North, institutional economic theories have identified processes to facilitate the market place. At the macro level, the state contributes to low transaction costs and effective control structures in several ways: by providing stable standards of measurement, including stable prices, and generally by creating a supportive environment regionally and nationally through the necessary government actions, providing a credible commitment to honour property rights and avoid using state power to seize resources capriciously, by following a predictable policy of taxation, protecting economic players from each other through various means including legal processes, and by facilitating (central) organizations that help establish reputation and detect fraud. Basically do not put legislation in place unless the necessary resources to ensure compliance are provided.

The present economic support system for the free market has left a large number of angry people in the middle class, now that they realize the globalization of market place only works for a few. The communist type of socialism did not work. It lacked the component of personal responsibility, so it was not considered in the discussions of a way forward. The three systems considered were the existing lower taxes and minimal government regulation, the progressive utilization theory (PROUT) and new institutional economics; all three support private property and competition. A new system must consider human beings as predominately competitive, selfish, and acquisitive creatures. This is key to the attribute of competition, which Kant believed drives the individual to perfection. This was also identified as an important component of North’s New Institutional Economics (NIE). Competition is the struggle of man against man, in which the natural facilities of man are developed. Such competition would be part of this institutional support of the free market system.

There would be less dissonance with a free market system shift to the new institutional economics compared to a new system consistent with PROUT. NIE would evolve over time selecting the best ideas that will support capitalism. In addition NIE doesn’t require the players to significantly change their mind set. It will support the selfish acquisitive activities of the players envisioned by Adam Smith. Any new system implemented to introduce a new way forward needs a champion to lead it, and a culture to support it.

Chapter 10

The New Conservatives

George W. Bush's administration managed to create a profile for the neo-conservatives. Their philosophy supported the Bush Doctrine of first strike wars. Bush's Assistant Secretary of War, Paul Wolfowitz, a neoconservative, was considered a disciple of a philosophy who believed that the rulers should lie to the public in the name of the common good. This was not using original thinking, only applying ideas promoted by Leo Strauss, and developed over the previous forty years by a group of elite intellectuals in the US. This thinking allowed him to easily engineer a plan of deception of the American people about the need to invade Iraq.²³⁸

Leo Strauss (1898-1993), a historian of political philosophy, arrived in the US in 1938, taught at several universities focusing on the philosophy of the ancients, teaching that "the elite should use deception, religious fervor and perpetual wars to control the ignorant masses."²³⁹ He lectured that the writings he studied identified deception as a form of normal political life. He believed effective politicians could not be completely truthful and still achieve the necessary ends of their society. Unlike Plato, Strauss was little concerned with the moral character of these leaders.²⁴⁰

Strauss claimed to identify certain universal principles to ground classic natural right, based on corresponding levels of individuals in the community – ranging from the lowest level of passion to spiritlessness to reason. This natural right supported the hierarchy of men, and from this rose the important question of who should rule. Straus deduced that the political community should be organized such that it consisted of rule by the wise few. This system supported community rights and not individual rights. Irving Kristal (1920-2009), political writer who was the intellectual father of U.S. neo-conservatism, embraced these ideas, promoted them in many articles he wrote and popularized the name of this new philosophy as 'neo-conservatism'. He went on to influence the group of liberals who opposed the Cold War and brought many of them into

the conservative thinking. This philosophy supported a benevolent hegemony in the world, led by the US.²⁴¹

During four decades of teaching in American universities, many undergraduate and post graduate students were exposed to many of the ideas developed by Strauss to counter the problem of contemporary politics, the ‘crisis of liberal democracy’, a weakening of resolve and confidence. The neo-conservative (neocon) foreign policy included supporting the development of democracy around the world, including introducing values by force. In general the neocons favored aggressive US foreign policy, consistent with elites protecting democracy from modernity. They opposed the ideas of the Enlightenment. The rights of the group or community superseded the rights of the individual. The right of individuals to make decisions in all aspects of their daily living was opposed, and there were restrictions on who would rule. There was no place for transparency and accountability, as deception was an important part of their politics.

At best, the neocons are a cult, an exclusive group of individuals sharing a devotion to ideas, principles and intellectual interest. Another reason that the neocons’ activities are not part of a movement is because their activities can be explained by narcissism. Extreme individualism leads to narcissism. Narcissism sets up the illusion that once one has a feeling, then it must be reality. When narcissism is out of hand, one could see many of the characteristics of deception that Strauss believed were essential for modern politics. It is about bringing individuals of like thinking into their bubble, and attributing unique or perfect qualities to those with whom they associate. Strauss’ idea of a hierarchical system in which elites ruled is no different than the narcissist’s drive to be superior, to express disdain for those they consider inferior, to seize and exercise power over others that translates into the right to dominate those lesser creature-selves around them. Their egotistical lust for superiority would support “might makes right” and aggressive foreign policy.²⁴² The narcissists can rationalize violence as being caused by evil strangers across the ocean who threaten their righteous and holy way of life, and blame others for the conflicts so they can justify their attacks. Narcissists use others ruthlessly to their own ends and do not hesitate to lie as this supports their image of themselves.

John Kenneth Galbraith, an economist who warned of the dangers of deregulated markets and corporate greed, observed, “the modern conservative is engaged in one of man’s oldest exercises in moral philosophy, that is, the search for a superior moral justification for selfishness.”²⁴³ Ayn Rand provided a framework for many conservatives to justify minimal government involvement in a free market system. However, these ideas were well enunciated over 100 years earlier. Herbert Spencer advocated the preeminence of the individual over society and of science over religion during the last quarter of the 19th century. He promoted the reconstruction of society on a scientific basis, leaving religious morality by the wayside, while society was evolving toward increasing freedom for the individual. Spencer’s fundamental law was, “Every man has freedom to do all that he wills, provided he infringes not the equal freedom of any other man.”²⁴⁴ Spencer believed that following the workings of natural law, ill-advised governments could hamper the operation of natural law and thus stand in the way of inevitable progress. He believed individuals were masters of their own fate, and governments could do almost nothing to assist evolution, hence make things better. Spencer was offering scientific justification for individualism and minimalist

government.²⁴⁵ His followers extrapolated what is natural is morally correct. This became known as social Darwinism, a theory of ethics. During the last two decades of the 19th century, Spencer's followers adapted 'survival of the fittest' to support exploitive forms of capitalism such as workers being paid pennies a day for hours of back breaking work. Spencer's skepticism about the ability of government to do more good than harm – not only concerning poverty but quite generally – has made him an important inspiration to libertarians.²⁴⁶

Friedrich Hayek, the most important economist of the 20th century, viewed the free market system not as something developed by man, but as a spontaneous order; unplanned social order is generated by goal directed action; individual freedom is a central value. He remained an ardent critic of planned economies and rejected socialism. Hayek's theories supported classical liberalism. Classical liberalism holds that individual rights are natural, inherent, or inalienable, and exist independently of government. Thomas Jefferson said of these inalienable rights, "...rightful liberty is unobstructed action according to our will within limits drawn around us by the equal rights of others. I do not add 'within the limits of the law' because law is often but the tyrant's will, and always so when it violates the rights of the individual."²⁴⁷

Objectivism is a philosophy popularized in the novels of Ayn Rand who introduced the idea of individual liberty and free markets, a philosophy many Western economists used to defend 'the free market' system during the Cold War. Ayn Rand espoused objectivism, which is the blending of free markets, reason and individualism, and made a moral case for individualism and liberty through the characters in her novels. For Rand, reason is man's highest faculty, which supported her new morality of rational self-interest. While libertarians still expound Rand's worldview, the new conservatives adopt other processes to wield power.

Periodically conservative libertarians provide support to various citizen groups to engage in political affairs. One already noted group from 1994, Contract with America, was a coalition of conservatives dedicated to the principles of shrinking the size of government and lowering taxes. It was backed by Pat Robertson's Christian Coalition, which had initially focused on abortion and same sex marriage. Contract for America supporters never campaigned on economic policy, rather they promoted family values and exploited fears in the community to win elections. They influenced elections that year using a wedge issue to get out the conservative vote. Following the Republican defeats in the 2008 elections, conservative groups set up support for other citizen groups. The Tea Party movement represents a grass roots protest group that appeared in 2009 in opposition to the economic bail out of the large banks and the health care legislation in the US. Their two main planks are small government and less money being put into social welfare programs, which include the expanded health care reform. The narcissists, with too strong a defense system, cling to the past, always feeling that society is at a crossroads, that the nation can be saved through the rebirth of the heroic self-sufficiency their ancestors supposedly relied upon. These groups worked to elect candidates favorable to their agenda or indirectly by distracting the electorate from important issues. The second group, the American Principles Program, opposes freedoms from the Enlightenment (community rights over individual rights), similar to the neoconservatives. Family values in the form of opposition to same sex marriage, and pro-choice figure prominently in their protests, using group dynamics by applying the natural rights of the

community espoused by the Medieval scholar, Thomas Aquinas. Aquinas produced a synthesis of Aristotle and Christian thought and established a method for scholastics to support church teachings. He introduced definitions on natural law to be used with his system. This natural law was that part of the eternal law of God (the reason of divine wisdom) which is knowable by human beings by means of their powers of reason.²⁴⁸

The more sophisticated of the two groups, the American Principles Project, which bundles economic and culture wars, appeared in late 2009. This group is an organization crafted to unite and mobilize economic, social and foreign policy conservatives. It was organized by Robert George, the McCormick Professor of Jurisprudence at Princeton University, who also developed a framework of support for the group based on the philosophy of Aquinas. While building the organization, George did not recruit another historian, rather recruited two individuals with public relations backgrounds. Social marketing was an important tool used to reach out and make the ideas visible to people who do not know about the project. Social marketing involves the media, including the Internet. American Principles Project maintains Facebook and Twitter connections along with their blog. Branding is an important, often subliminal process by which a business employs marketing strategies to get people to remember their products and services.

The American Principles Project is supported by six pillars described below: “There are six major pillars of society: the individual, the family, communities of religious faith and other institutions of civil society, the business firm, the educational system, and the institutions of law and government.”²⁴⁹ These pillars are supported by universal principals: “created equal, endowed by our Creator with certain unalienable rights, and among these are life, liberty, and the pursuit of happiness.”²⁵⁰ Thomas Jefferson used the natural law theory to justify his trinity of “inalienable rights” which were stated in the United States Declaration of Independence. This group transposes the natural rights of society defined by Aquinas for the natural rights of the individual espoused by Locke. The implication of this assertion is that common sense dictates our understanding of the problem and the solution. Under the banner of the defense of the sanctity of human life is opposition to abortion; under the banner to defend the integrity of marriage and the family is the opposition to gay marriage; under the banner of defense of political liberty and economic freedom is support for small government and laissez-faire economics. In this system, abortion and gay marriage violate natural law and natural rights in human affairs.

While the American Principles Project also uses opposition to abortion and same sex marriage to attract supporters, rather than rely on the scriptures, it controls the debate by applying the concept of natural law based on ‘self-evidence.’ Self-evidence is defined as an issue known to be true by understanding its meaning, without reasoning or proof. The implication of this assertion is that common sense dictates our understanding of the problem and the solution. The American Principles Project has created a sophisticated system to defend fundamentalist ideas in religion and economics. Robert George states, “We believe that the way forward, economically, politically, and morally, is to rededicate ourselves to those timeless self-evident truths.”²⁵¹

Of the two groups, the Tea Party gained the most traction. The Tea Party movement represents heterogeneous groups organized and supported by infusion of funds from rich conservatives. They were organized to appear as grass roots organizations, and achieved

national attention by interrupting town hall meetings during the health care debate. This gave the perception that there was more grass roots opposition to the legislation than there actually was. The groups harness the anger in the communities, oppose the perceived fascist/socialist attack on American values (whipped up by sensational pendants of Fox News) and are hostile to the Washington political class. While sharing many values of Republicans, they are not under the control of the Republican leadership; they vote republican en block. In the 2010 elections, the Tea Party movement provided the wedge issue and by their activities encouraged angry voters to the polls who voted overwhelmingly Republican. They stirred up fear and panic to ensure the voter who shared their views showed up at the ballot booth (in a mid-election year). The movement flexed its independence by running candidates who were more conservative than incumbent republicans in the primaries. Using their base, they were able to get the most candidates elected in the primary, and many went on to be elected as part of the new Republican majority in the new Congress.

A shift to the right is nothing new for the republicans. Frank Meyer (1909-1972), co-founding editor of the National Review magazine, had described a fusionist process. Typically this was seen in conservative libertarian fusion. Libertarians, as a rule, are nominally socially liberal, while Christian fundamentalists were more left of center and had compassion for the poor neighbor. Fusion of the two moves both to the right creating a new radical who supports unrestrained capitalism and the family values of social conservatism. This new individual is more radical than their colleagues associated with only one of the two movements.²⁵² This process allows their candidates to appear more morally pure. Identity fusion is the process of interplay of personal and social identities in extreme group structure where the individual gives the group strength and the group gives the individual strength. This is a process that makes individuals more extreme.²⁵³

Candidates in the Republican Party have taken positions far to right, such that their positions wouldn't be recognized by their peers from a decade ago. Some of this is in response to the Tea Party candidates. The "move right and win" theory, by standing forthrightly for traditional family values, smaller government, and less regulation of business, enabled republican candidates to energize their party's base and win back conservative voters who had become disillusioned in 2008. This, in turn, pulled the Democrats closer to the centre in order to engage a debate. Extremism is pervasive among conservatives and has been established as a badge of authenticity. The advantages of extremism include calling attention to one's cause, damaging one's opponent, uniting one's in group against a common enemy, framing good vs. evil, providing material for media to use to socialize a buy in to the idea, and sending messages of a deep and arbitrary commitment to a cause.²⁵⁴

The Tea Party movement has used the principles of extremism to recruit candidates more conservative than republican incumbents to run in primaries. The movement achieved their influence by practicing fusion identity politics using extremism processes. This basic idea promotes extremism, which is the notion that there is always someone who is more leftist (or libertarian, or fundamentalist) than you. Extremism naturally flourishes in communities that eschew compromise, and radicals tend to value personal purity too much to compromise on anything. This can lead to a form of political extremism that can develop where the practical consequences of political action are deemed irrelevant, so long as an abstract of moral purity is upheld. In such a case,

personal purity is understood as strict adherence to prescribed codes of conduct. Whenever their tactics fail, the Tea Party members conclude that failure was the result of insufficient purity. This turns into a political tactic for recruiting new members. Arguing from first principles, making their views trivial – it's about freedom (for a libertarian) – wherein the radical will invite the recruit by appealing to some trivial principle, and then tell him he must support the entire agenda as a member of the movement in good standing. In this manner they can recruit apathetic moderates and undecided to their camp.²⁵⁵

There is obvious right wing bias in a select group of media outlets. These centers have trouble hiding their partisanship. The vested interest counters with 'the media is liberal.' There are two methods used to influence information: (1) the release of egregious falsehoods that take hold and quickly drive political disease, (2) cognitive dissonance. For example, Fox News shows support to the right wing histrionics by repeating much of the misinformation that appears in right wing media.

Cognitive dissonance occurs when two unrelated facts are paired. A person desires to minimize their cognitive dissonance. Right wing news outlets mention Iraq and September 11th attacks in the same sentence. The close proximity of the mentions is designed to create a correlation in people's minds even when the reality is different. From insinuation, people subconsciously take the idea and turn it into a possibility. Through repetition, the correlation becomes fact based upon misinformation. That is why 50% of Americans today believe that Iraq was involved in the 9/11 attacks.²⁵⁶

The second method is to start with an inflammatory story that has a goal to discredit democratic politicians, social programs, etc. These reports are not misinformation, but disinformation. Then the story takes off, more media outlets pick up the story (often pre-packaged) and is repeated across the country. Even the main stream media attempts to counter outrageous remarks create more exposure for a story (that can be false). A master at disinformation was Glen Beck, an American conservative radio host, and former television host at Fox News.

Glen Beck used a combination of conspiracy theories (how the government is trying to control you) and shock statements (Obama hates white people) regularly on his television show. The role that Beck created for the media of the conservative right was to provide a source of distraction from the big issues, such as responses to the deficit and global warming. This included the media echo effect, as other media outlets comment on Beck's outrageous claims, regrettably giving the story credibility. For his attack on progressives he used cognitive dissonance – by linking the principles of individual liberty and limited government to the founding fathers he was able to create dissonance against the progressives who believed it necessary to challenge monopolies at the turn of the century as part of establishing fairness in economic matters. He even introduced his audience to Hayek's *Road to Serfdom* to harness Hayek's polemic against central planning. This would have been good journalism if the problem facing the financial services industry *was* central planning. Remember from Chapter 5 the politicians neglected to extract any concessions from the big banks during the bail out, and today, the oligarchy is more powerful than ever. Hence, this story was no more than a distraction, dressed up to scare as many gullible people as possible. Beck, who used shock tactics to keep up his ratings and the advertisers happy, had much of his disinformation reinforced on right wing blogs.

At a Tea Party Express rally in Boston, Sarah Palin asked Congress, “Please, starve the beast, don’t perpetuate the problem, don’t fund the largess, we need to cut taxes.”²⁵⁷ The conservatives have three decades of working on ‘starving the beast’, which has little to do with economics but remained a rallying cry to supporters in 2010. The phrase “starving the beast” attributed to Reagan Budget Director, David Stockman, a conservative, is synonymous with the ideas that cutting taxes will automatically reduce spending. By continuing to embrace this economic construct from the past, cognitive dissonance is minimized.

The ‘starve the beast’ doctrine appeared in the days of Reagan when supply side economics (predicted reduction of marginal tax cuts would actually increase government revenues) was being promoted. Reagan, under his big tent, was able to unite supply siders, libertarians who favored all tax cuts, and traditional conservatives (spending cuts that would balance the budget). It was based on the theory that restraining the amount of revenue available would be a brake on the growth of expenditures. Under the banner of ‘starve the beast’, tax cuts no longer have to be rationalized by any particular theory of economic growth, efficiency or fairness. While it was introduced under Reagan, it stalled under H. W. Bush, 41st President of the United States (1989–93), and Bill Clinton, 42nd President of the United States (1993-2001), both of whom increased taxes.

President George W. Bush (2001-2008) came to office and found tax revenues exceeded funds required to run the government. Bush introduced a significant temporary tax break that favored the rich. Later in Bush’s term, with two unfunded wars, the government revenue no longer met expenses, the temporary tax cut remained in place, and deficit financing occurred. Then ‘starve the beast’ appeared again as a fiscal political strategy of the Republicans. However, not wanting to cut popular programs like Medicare, Medicaid, or Social Security, the politicians pushed through popular tax cuts. By now the theory is recognized as not consistent with facts, and has left Americans with a belief that deficits do not matter. The cynical still claim this causes a worsening of the government fiscal position, then by necessity, rather than choice, and spending cuts would be brought in to eliminate an unsustainable budget deficit.²⁵⁸

The new conservatives are much more to the right than republicans were twenty years ago. In addition, this move is associated with a refusal to compromise on issues. However, there remains a connection to the past. Grover Norquist, an influential conservative who backed the war in Iraq, declared in 2001, “My goal is...to get government down to the size where we can drown it in the bath tub.” Norquist is a proponent of the ‘starve the beast’ doctrine.²⁵⁹ Back in 1970s, another neo-conservative, Irving Crystal, promoted supply side economics: the doctrine that tax cuts could be had for free (incentive effects would generate new activity and so higher revenue) without causing budget deficits.²⁶⁰ The initial supply side economics was never believed by its creators; it was promoted as a credible theory in order to create a political doctrine to unite the right. Under this plan, the supply side economics was amalgamated with the ‘starve the beast’ theory. ‘Starve the beast’ was used simply to unify the Republican Party, as reducing taxes was politically popular. The use of these fabrications can be explained by the principle of Plato’s Noble Lie.

Chapter 11

The New Progressives

A progressive era, a period of social activism that flourished from 1890 to 1920, was a response to the disparity between rich and poor, and became known for its social activism. It picked up momentum following a depression that started in 1893 and lasted five years, as small businesses, farmers and labor movements asked government to intercede on their behalf. It was associated with efforts to cure many ills of American society, and a belief in a need to improve the lot of all within society. There was a shift from individual rights and minimal government to social liberalism which holds that individuals have a right to be provided with certain benefits or services by others. There was a conviction that government must play a role to solve social problems and establish fairness in economic matters. It was a rejection of the social Darwinism that was popular with the rich and powerful. Corruption was exposed; public control was established of the existing monopolies over public resources, such as water and gas works. This became the driving force behind the reform and regulation of child labor, the institution of public education, and the right of women to vote. Progressives, who favored government regulation of business practice, included both republicans and democrats.

Two waves of progressive activities have occurred in North America since the late 19th century. The first wave was characterized by the action taken during the Teddy Roosevelt administration, including enforcing ant-trust legislation written two decades prior. Teddy Roosevelt introduced reforms promoting education and science, and government policies, such as an obligation to intervene in economic and social affairs, and a belief in the ability of experts and in the efficiency of government intervention. This period included the administration of Woodrow Wilson which introduced changes to the fiscal policy that imposed Federal Income Tax and the creation of the Federal Reserve System in 1913 (because of a weakened economy and persistent federal deficits). It was in the spirit of this era, in 1913, that Henry Ford established the moving assembly line to

build cars. He offered a very generous wage of \$5 per day, arguing that mass production enterprises could not survive if the average worker could not buy the goods.²⁶¹

World War I released many emotions that competed with the progressive agenda, along with the failure to agree on an agenda. An industrial boom in North America buffeted the cities bringing near full employment, but there was still little prosperity for the farmers during the 1920s. Throughout the decade the banks and industry regained much of their power. In Canada, the farmers' groups who desired Free Trade to keep down the costs and to get market price for their produce drove the progressive movement. In response to the market crash of 1929, President Hoover implemented new taxes to counter dwindling incoming funds to support the government, implemented a tariff wall around the US to protect industry while the Federal Reserve did not intervene. In response, a reciprocal tariff was implemented by Great Britain, Canada and Germany, and the economy worsened.²⁶²

The second progressive wave included the actions of Franklin D. Roosevelt during the Great Depression. After his election in 1933, Franklin D. Roosevelt created an alphabet soup of new government programs that included various safety nets that became known as the New Deal. The progressive legislation enacted during his twelve years as president included the Securities and Exchange Commission, the Federal Deposit Insurance Corporation and Social Security. He introduced deficit spending to cover the new programs put in place in response to the economic problems of high unemployment during this period. Uncontrolled and unregulated actions of banks and investment companies caused the failure of the stock market in 1929. The passing of the Glass-Steagall Act of 1933 separated the activities of banks and investment companies to rectify the problem. Some aspects of the economic down turn did not disappear until the appearance of World War II. The half-century following the passing of the Act saw the fewest bank failures in American history. Once the financial deregulation began in the 1970s, significant banks failures appeared again. While the Glass-Steagall Act was repealed in 1999, the commercial and investment banks had already weakened the legislation by underwriting many types of securities through subsidiaries (with the blessing of the Federal Reserve). The new financial instruments fell outside of Glass-Steagall. The Gramm-Leach-Bliley legislation of 1999 made it impossible to separate banks' securities operations from ordinary banking operations, which meant the government guarantee of the banking system, in place since 1930, was effectively extended to investment banking.²⁶³

A government-sponsored enterprise (GSE) is a financial services created by the United States Congress to enhance the flow of credit to targeted sectors of the economy. The two well-known GSEs are the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac. In the first decade of the 21st century, activities of the financial services industry created a great deal of stress around the world, the consequence of new financial instruments that were developed and were eventually manipulated. In the early 1980s mortgages were bundled together as the backing for new and alluring securities that could be sold as alternatives to traditional government and traditional bonds. Niall Ferguson describes the process:

“The process was called securitization and it was an innovation that fundamentally transformed Wall Street, blowing the dust off a previously sleepy bond market and ushering in a new era in which anonymous

transactions would account for more than personal relationships. Once again, however, it was the federal government that stood ready to pick up the tab in a crisis. For the majority of mortgages continued to enjoy an implicit guarantee from the government-sponsored trio of Fannie, Freddie or Ginnie, meaning that bonds that used mortgages as collateral could be represented as virtually government bonds, and hence ‘investment grade’. Between 1980 and 2007 the volume of such GSE-backed mortgage-backed securities grew from \$200 million to \$4 trillion. With the advent of private bond insurers, firms like Solomon could also offer to securitize so-called non-conforming loans not eligible for GSE guarantees. By 2007 private pools of capital sufficed to securitize \$2 million in residential mortgage debt. In 1980 only 10 per cent of the home mortgage market had been securitized; but 2007 it had risen to 56 per cent.²⁶⁴

One of the gimmicks used to entice borrowers was the ‘subprime’ mortgage with initially low rates of interest, which slipped into high adjustable rate mortgage, varying according to short-term interest rates. The subprime business model worked perfectly as long as interest rates stayed low, as long as people kept their jobs, and as long as real estate prices continued to rise. These loans were resold to Wall Street banks in bulk. As Ferguson describes:

“The banks in turn bundled the loans into high yielding residential mortgage-backed securities (RMBS) and sold them on to investors around the world, all eager for a few hundredths of a percentage point more return on their capital. Repackaged as collateralized debt obligations (CDOs), these subprime securities could be transformed from risky loans to flaky borrowers into triple-A investment-grade securities. All that was required was certification from one of the two dominant rating agencies, Moody’s or Standard and Poor’s, that at least the top tier of these securities was unlikely to go into default. The lower ‘mezzanine’ and ‘equity’ tiers were admittedly more risky; then again they paid higher interest rates.... Since the subprime mortgage market began to turn sour in the summer of 2007, shockwaves have been spreading through the world’s credit markets, wiping out some hedge funds and costing hundreds of billions of dollars to banks and other financial companies. The main problem lay with CDOs, over half a trillion dollars of which had been sold in 2006, of which around half contained subprime exposure. It turned out that many of these CDOs had been seriously over-priced, as a result of erroneous estimates of likely subprime default rates. As even the triple-A-rated securities began to go into default, hedge funds that specialized in buying high risk CDO tranches were the first to suffer.”²⁶⁵

By late 2007 the International Monetary Fund declared it ‘the largest financial shock since the Great Depression.’²⁶⁶ The U.S. Securities and Exchange Commission charged Wall Street giant Goldman Sachs & Co. with civil fraud. The U.S. government accused the investment bank of defrauding investors in its disclosures about securities it sold tied to subprime mortgage securities as the housing market was faltering.²⁶⁷ The economic gyrations last seen a century ago have reappeared – a challenge for the new progressive movement! What is needed is a new covenant between citizen and commonwealth. This

requires breaking free of the past; sweeping aside the old ideas and governing structures that no longer serve the greater public good. Societies are the servant not the master. There must be individual and civil empowerment. Because we can no longer rely on big institutions to take care of us, it is time for new policies and institutions that enable us to take care of each other and ourselves. The new structure consists of renewing democracy by challenging the special interests that dominate decision-making, to defend the common good to strengthen the community and protect the less fortunate. The challenges of the first decade of the 21st century resemble those of a century ago.²⁶⁸

New progressives need to work together to restructure the state and develop a civil society empowered. Policies are required to counter individualism, consumerism and materialism. This new system would consist of a society in which people lead lives that are much informed by a sense of common good. This includes building on the civil secular ideas of liberty and equality. The 21st century will focus on the quality of life. This includes policies that are rational, support competition and are progressive. Under rationality, one bases politics on reason and free inquiry, which embrace competition in the market place. Progressive principles and values are to be forward looking and universal in scope. The role of the state is to safeguard against irresponsible acts and abuse of the marketplace, such as the manipulation of the asset backed mortgages by various players in the financial services industry. The new progressive will promote policies to create social adhesion on the basis of fair rules for economic and social action of the citizens, and support the weaker sections of society. Public service must be well funded, oriented towards the individual, flexible rather than monolithic, bureaucratic and target-driven. Bureaucratic refers to the combination of organizational structure, procedure protocols, and a set of regulations in place to manage the activity of the organization. Beware of “compassionate Conservatism,” which can involve retreat into the private sphere, eventually leading to greater individualism and withdrawal of state support in crucial areas such as education and training, law and order, and healthcare. The other buzzword to counter is self-responsibility. Objectivism is rational self-interest and self-responsibility. Objectivism was popularized in Ayn Rand’s novels. The fundamentals of her philosophy are put forth in three nonfiction books, *Introduction to Objectivist Epistemology*, *The Virtue of Selfishness*, and *Capitalism: The Unknown Ideal*. In *Capitalism: The Unknown Ideal*, Nathan Branden discusses self-responsibility. Branden identifies the importance of self-responsibility – a person seeks knowledge, sets goals and does not surrender his decision-making to others. This supports the development of a free society that can only be supported by laissez-faire capitalism. Libertarian conservatives favor self-responsibility. Contract with America promoted the Personal Responsibility Act, an act to discourage illegitimacy and teen pregnancy by reforming and cutting cash welfare and related programs. This would be achieved by prohibiting welfare to mothers under 18 years of age, denying increased financial assistance for additional children while on welfare, and enacting a two-years-and-out provision with work requirements to promote individual responsibility. This is a well-recognized conservative principle.

In *The Virtue of Selfishness*, Branden wrote, “Because a genuinely selfish man chooses his goals by the guidance of reason – and because the interests of rational men do not clash – other men may often benefit from his actions. But the benefit of other men is not his primary purpose or goal; his own benefit is his primary purpose and the conscious

goal guiding his actions.”²⁶⁹ However, economic elites emerge in every society and invariably seek to promote their own interests. By definition, economic elites enjoy greater wealth, and therefore influence, than the ordinary citizen, and they typically attempt to exploit these advantages politically, using them as leverage to obtain still greater wealth and influence. The individuals in the financial services industry came through the cult of self-esteem, learned to tolerate the errors and flaws in their actions, which led to a sense of entitlement. The sense of entitlement is at the root of the decline in standards. The fund managers were enraged when President Obama insisted on limits on remuneration and bonuses to managers of Wall Street financial services industry who had just been bailed out with taxpayers’ dollars. There appears to be two types of self-esteem accepted by the conservative libertarian. One is the narcissistic individual, only concerned about himself and short-term gain, who manipulates the leveraged market creating every opportunity to make money. The other self-esteem, of course, supports the self-responsibility that forms the basis for poor people to learn how to earn money in order to get off government-sponsored entitlements.

This ‘true self-esteem’ was missing during the extreme risk and speculation at the heart of the financial crisis. This is the same self-love that was the missing piece that had the principles of objectivism unraveling. Self-responsibility should be replaced with personal accountability, a responsibility to answer for your actions. For the individual that means they ask, “How can I be of help (in this situation)?” Political and organization accountability rests on the ethics that people in positions of power take responsibility for their actions. Good decision-making accountability requires transparency and an awareness of conflicts of interest. Making sure it can stand up to the scrutiny of the six o’clock news can validate the decision. For politics there is a need for transparency to determine how political representatives have used the power they have been given.

By 2010, it was clear that the economies of the closed systems of China, India and Russia had ridden out the economic chaos of the previous three years in better shape than the more open systems of the West which had objectivist philosophy for support. In spite of the differing strength, both systems are mutually dependent. The closed state capitalist systems are dependent on the spending of the Western open market system, which are dependent on the state capitalists to fund debt in the West. The dogma created by the economic fundamentalists (that individual freedom needed to be bundled with the free market system for success) is now discredited. The Chinese are making the case that this was a western invention imposed on the world by Washington. The fall out from the economic debacle suggests that strong economic growth can be replicated in less open economic models, as seen in India and China.

It falls to the new progressives to develop rules for fair play to prevent the abuse of the marketplace created by the narcissistic traits of the selfish individuals in the financial services industry. Progressives need operational processes to influence events. It will take multiple approaches to counter the oligarchy of multinational companies and their coterie of lobbyists. It is necessary to identify wedge issues, issues that will move large numbers of people. The conservatives have a well-established record using wedge issues. In 2004, Karl Rove, in charge of the campaign to re-elect George Bush, engineered a series of anti-gay marriage ballot initiatives in key battleground states designed to draw conservatives to the polls and cut into the progressive base. This is credited with securing Ohio and the election for Bush. The future for progressives is to tap the belief of the

younger voter that government can achieve progressive goals. Plans need to include processes to mobilize the young vote, the millennium vote, born after 1978.

A typical conservative wedge issue is to create opposition against state regulation or control. Progressives favour basic economic fairness rather than social issues. In the US, republicans have advantage on social issues, but have electoral disadvantage on economic issues. The economy is as bad as it's been for seventy years, so there is material available for progressives. The challenge at hand is two fold: change the debate from government intervention or regulation to accountability and transparency, and secondly to carve out bite size economic initiatives for wedge issues. For the 2010 midterm election the Tea Party candidates ran with a pro-life platform as an emotional wedge issue, leaving economics issues a distant second. Progressives can focus on economic issues, such as job creation and America's crumbling infrastructure. This would include proposed funding a series of well-defined public works projects that include road, bridges and water treatment plants.

Glen Beck has attacked the progressive movement many times using cognitive dissonance. Cognitive dissonance occurs in the pairing of unrelated facts to create correlation. An example of this is when Beck mentions the progressive movement of the 21st century in the same sentence as notions of European fascists, socialists and communists from the 1920s, to create correlation to market messages that support his cause. The close proximity of the mentions is designed to create a correlation in peoples' minds even when the reality is different. Through repetition, the correlation becomes fact based upon misinformation.

Beck's dialogue on connecting eugenics to the progressives in the 1920s to the people calling themselves progressives in first decade of the 21st century relies on the listener not being familiar with history. He wants to create a correlation in peoples' minds that progressives in 1920s (supported eugenics) are related to progressives 100 years later. By insinuating, people subconsciously take the idea and turn it to a possibility. The reality is different. The individuals associated with eugenics during the Progressive Era in the early 20th century adhered to Herbert Spencer's Lamarckian social interpretation (based on individual characteristics acquired during life being passed along to their offspring). This theory was believed to be not only natural, but also, morally correct. Social welfare programs were not necessary and would only distort the beneficial progress of natural selection. These supporters of Spencer believed the labor force should be rid of unfit workers who were 'the unemployable' or 'industrial residium.'²⁷⁰ This group espousing eugenics should not be confused with the progressives (at the turn of the 20th century) who believed that individuals have a right to be provided with certain benefits or services by others, and drove the economic reforms of the day. In fact these progressives rejected the ideas behind social Darwinism, the position taken by the rich and powerful figures of the day.

Success in politics requires moving people to act. Unless people are motivated, mobilized, and given something to fight for, they stay home, don't vote or participate. In that scenario, the status quo goes merrily along, unchanged and unchallenged, or those few who are motivated and mobilized win. The issues that can be considered include issues like same sex marriage and immigration reform. There are still the standard environmental issues, climate control and green energy. Without wedge issues, such as

vote for funds for public work projects, progressives must work very hard to bring forward their messages for change.

There was a new source for change, the Tea Party candidates elected in 2010. They are the wild card. The outcome depends on their response to the required debt reduction and tax increases. There are two opportunities for them to influence progressive policies, each at the opposite end of the spectrum. On one hand, their penchant to adhere to principles could be part of a formula to introduce new progressive budget policy. On the other hand, the old guard republicans could use them to set the bar so low that very little constructive legislation will occur. In the first instance they could be part of progressive legislation in the near term; in the second scenario, more progressive representatives are elected at the next election to replace them, creating a quorum for new progressive legislation.

A new movement, Occupy Wall Street, appeared in New York in September 2011. It started as a series of demonstrations led by progressive activists with messages that targeted financial greed and corruption. In its early stage it lacked a unified message or mission, not unlike the present progressive movement. It serves as an outlet for individuals to express anger over the collusion of the most powerful people in government with the wealthiest people of corporate America. The protests are making the plight of the middle class highly visible. The group is gathering a world following. They are driving change for the progressive movement, making inequality a political issue.²⁷¹

The progressive movement focuses on many issues including environment and social justice. The new progressives must tap into the energy of the progressives from 100 years ago and bring back convictions that government must play a role to solve social problems and challenge the oligarchs. It is necessary to tap the principles of progressivism, go back to the basics of freeing government from special interests, and protect the rights of consumers, workers, immigrants and the poor. The movement declined with economic success following World War II, so it must take a proactive role in the economy with a new world view on how the economy is controlled, in particular the financial services industry. To achieve this, it is not possible to focus on a myriad of goals. It is necessary to focus on the economy with its multifaceted connections to social issues. The idea of fairness in economic matters needs to become part of a new system, to replace the status quo.

Chapter 12

A Road Map

“If you don't know where you are going, any road will get you there.”²⁷² noted Lewis Carroll, English author and mathematician known for such writings as, *Alice's Adventures in Wonderland*. Milton Friedman said that only a crisis, real or perceived, produces real change, and when that crisis hits, the change that occurs depends on ideas that are lying around.²⁷³

There was a crisis in 2008. Let's look at the ideas available that can be used to prevent this from happening again. A road map will be developed in this chapter by reviewing four recent books that discuss the economy. In planning jargon, a road map provides a framework to identify ideas out there that can be applied to the solution to prevent a future crisis. It is a tool to help guide a planning process, which typically includes a timeline and bars that represent an event or idea. The bars represent the evolution of a set of decisions or alternatives. This road map includes a color code: red means there is a serious snag, yellow means limited commitment to implementation and green means fully committed. The status can be measured by preference – here's what we are thinking, or risk – here is how we are doing. There is a need for a champion for a project or alternative. Each project or alternative identifies needs. It is generally agreed that financial reform will not provide relief; rather it will prevent the next crisis (or if watered down enough, provide the holes the economy will become entrapped in a future crisis). It would be a mistake to think the future will look like the past. The goal is to avoid conventional solutions.

During the last two decades of the 20th century, deregulation of the marketplace in the West created the milieu for the global corporation. It saw a symbiosis between China buying US debt, (which allowed low interest rates that fanned the growth of the housing bubble in the US), and allowed for the accumulation of debt without requirement of increased taxation to support such expenses as the war in Iraq. Four books are reviewed for ideas: *The Return of Depression Economics and the Crisis of 2008*, by Paul Krugman,

The Ascent of Money: a Financial History of the World, by Niall Ferguson, *False Economy: A Surprising History of the World* by Alan Beattie, and *13 Bankers: the Wall Street Takeover and the Next Financial Meltdown*, by Simon Johnson and James Kwak.

In *The Return of Depression Economics and the Crisis of 2008*, Paul Krugman, a professor of economics and international affairs at Princeton University, claims that many believed the Great Depression to be the result of wrong decisions: the government tried to balance the budget which took money out of the economy, and the Federal Reserve defended the gold reserve at the expense of the economy, followed by a retreat into protectionism. By the last quarter of the 20th century, the general belief was a situation like the Great Depression would never happen again; only the periodic business cycles in which the economy quickly bounced back, and the rise of globalization and the growing sophistication of the financial markets would prevent another large-scale crash. There were warnings from the economies of Asia in the 1990s, but nobody grasped the significance of the situation. Krugman notes that the events of 2008 illustrated a defect in the present system that requires change to prevent another recession.

Krugman warns that, while the crisis may never be as severe as the Great Depression, the money lessons from that time apply, so don't reduce the stimulus too fast. He acknowledges that economists are divided (not all consider the present recession an issue), but believes that in the long term there needs to be financial reform. With respect to financial reform, Krugman points out the necessity to revive the economy before introducing measures to ensure that the crisis doesn't happen again. That means wait until the crisis is over before reforms are introduced. With respect to financial reform, he observes banking regulation worked well for four decades:

“Since 1930s commercial banks have been required to have adequate capital, hold reserves of liquid assets that can be quickly converted into cash, and limit the types of investments they make, all in return for federal guarantees when things go wrong. Now that we have seen a wide range of non-bank institutions create what amounts to a banking crisis, comparable regulation has to be extended to a much larger part of the system.”²⁷⁴

He identifies that financial globalization is harder to understand and control than previously believed and prevailing ideas are important to take into consideration. The language is subtle, but we need to be ready to displace dogma, and introduce critical thinking into discussions on the economy. He flags a major barrier to adequate reform; “One thing making those odds even higher is the growing backlash against government intervention.”²⁷⁵ He identifies a concern about where the champion for the necessary reform will appear. For these ideas, the bar on the road map is red – it consists of warnings, but no processes for change are presented.

In *The Ascent of Money: A Financial History of the World*, Niall Ferguson described the evolution of credit and debt, which in his view was as important as any technological innovation in the rise of civilization. Ferguson promotes the concept that the financial system be considered an evolutionary system. Ferguson's system supports competition by innovation – a business enjoys temporary monopoly until rival firms start to imitate. However, he adapts many references to science in his version of economic evolution. Genes and mutations have a counterpart in the financial services industry. He compares the appearance of financial instruments during the twenty years leading up to the crisis to

the Cambrian explosion of new species, followed by the die-off of various investment banks and types of derivatives. He suggests the market allocation of capital and human resources be considered a mechanism for natural selection, innovation be considered equivalent to spontaneous mutation, and new financial tools are equivalent to the appearance of a new species. Ferguson notes these are consistent with ‘survival of the fittest’.

Ferguson takes the high road (neo-liberal) identifying that there is a big difference between nature (selection of traits) and finance (directed change from regulation). His response to a crisis of not increasing regulation does not address the grey area of financial institutions operating outside the reach of the regulators. His version of ‘more of the same, only better’, appears as the ongoing reduction of regulations. This would move the market closer to operating in a natural environment. Such things as short-term manipulation and excessive risk-taking (of weakest institutions) would rely on the natural selection to eliminate them.²⁷⁶

Ferguson observes:

“Financial history is essentially the result of institutional mutation and natural selection. Financial organisms are competitive with one another...At certain times and in certain places, certain species may become dominant. But innovation by competitor species prevents any permanent hierarchy or monoculture from emerging...the law of the survival of the fittest applies.”²⁷⁷

In fact, the evolution of complexity protects neither an animal nor a corporation from extinction.

The concept ‘survival of the fittest’ was developed by Herbert Spencer in the 19th century and was part of his Lamarckian evolution that he championed. Spencer was an evolutionist who thought evolution involved more than biology, thinking of society and culture as belonging to the natural world. Life is a struggle for human beings; in order for the best to survive it is best to pursue a policy of non-aide to the weak. He believed that evolution equaled progress (in the moral sense of the word), and anything that supported evolutionary forces therefore would be good. He coined the phrase ‘survival of the fittest’ and regarded it as a guide for government policy, which often led him to oppose support for the poor as he believed social welfare corrupted morals, as well as fitness. In his mind poor and politically powerless people were failures in the natural competition for survival; consequently, helping them was a waste of time and counter to nature. Based on this, rich and powerful people did not need to feel ashamed of their advantages, because their success was proof they were the most fit in this competition.

The Lamarckian system provides a more appropriate mechanism (than Darwinism) for evolutionary success or fitness in economic studies. Lamarckism holds that genetic variation originates preferentially in adaptive directions.²⁷⁸ The same habit will be acquired thus for many generations, until at last it becomes so firmly established in the race that it is transmitted from one generation to another, and is, therefore, an instinct. Thus instincts may be acquired in this manner. What was habit for one generation becomes instinct for later generations. This concept supports cultural and economic evolution. The concept of the directed evolution of Lamarck is comparable with the ‘hidden hand’ directing the market place. The evolutionary economics described in the 1980s presented an alternate to rational choice. In this model, decisions of firms and

individual consumers are considered as taken in a habitual manner because their rationality has boundaries.

Niall Ferguson introduced Thorstein Veblen who posed the question “*Why is Economics Not an Evolutionary Science?*” in 1898. Veblen rejected Lamarckian evolution and Herbert Spencer’s social Darwinism. He blended Darwinian evolutionary perspective with institutional economics in an effort to provide economics with a scientific basis. He attacked the influence of laissez-faire economics and big business in shaping modern society and cultures. He claimed that not all change was progress; rather, businessmen often introduced inefficiencies into the economy in the form of monopolies. He believed that economic behavior was socially determined and economic organization was a process of ongoing evolution. However, Veblen introduced the basis of the institutional economic movement and the concept of “conspicuous consumption.” Conspicuous consumption is a term used to describe the lavish spending on goods and services acquired mainly for the purpose of displaying income or wealth, essentially as a means of attaining or maintaining social status. As well as inspiring the institutionalist movement, Veblen provided a model of recurring conflict between existing order and new ways. Institutional economics focuses on understanding the role of the evolutionary process and the role of institutions in shaping economic behavior. Institutional economics emphasizes a broader study of institutions and views markets as a result of the complex interaction of these various institutions (e.g. individuals, firms, states, social norms).²⁷⁹

John Kenneth Galbraith was associated with institutional economics. He believed that in an age of big business, it was unrealistic to think of markets of the classical kind. Big businesses set their own terms in the marketplace, and used their combined resources for advertising programs to support demand for their own products. As a result, individual preferences actually reflect the preferences of entrenched corporations, a ‘dependence effect’, and the economy as a whole is geared to irrational goals.²⁸⁰ Institutional economics has morphed into new institutional economics. Douglass North is a champion of the new institutional economics which includes the institutional system working within the neoclassical framework. In this system, institutions are defined as ‘rules of the game’. North observes, “there is no such thing as laissez-faire...Any market that is going to work well is structured, it is structured by deliberate efforts to make the players compete by price and quality rather than compete by killing each other or other means.”²⁸¹

Niall Ferguson’s lessons in history are a positive rendition of neo-liberal capitalism. He warns of the danger of applying more regulations to the present situation would create a toxic environment in which the markets would be unable to respond. He celebrated the evolution of financial instruments around the world as the key to spread human progress. On the other hand, he reminds us of the present global dependence on a Byzantine infrastructure of global financial services, and the fragility of the system in the aftermath of the 2008 debacle.

However, the debacle of 2008 was caused by a combination of the over extension of credit and not enforcing what little regulations there were, rather than by the introduction of stifling regulations. The bar on the roadmap for his ideas is yellow, as it meets requirements for minimal commitment. The concept of evolutionary economics should be taken under consideration as part of the solution to prevent the next crisis.

In *False Economy: A Surprising History of the World*, Alan Beattie provides insights into how countries affect their economic prospects by key decisions made in previous decades. Argentina built wealth in the 19th century based on large farms, raising cattle and sheep, with little diversification. They created land holdings with more land than could be efficiently worked, in a climate that provided few homegrown or imported laborers to work. At the turn of the 20th century, when the markets in Europe opened up and lots of export money flowed into Argentina, Argentina became one of the top ten, richest countries in the world. Industrialization lagged, and when it finally took off, monopolies were favored. During the Great Depression, agriculture prices suffered, and the country declined dramatically. Then Argentina set up a tariff wall that led to the development of inefficient industries that needed to be dismantled in the 1970s. Poor policy decisions plagued Argentina. Also, Beattie warns, when implementing change, there needs to be a commitment. He points out the consequences of starting down a certain economic path: “many nations have gone down routes they would not have chosen had they foreseen where they would lead. And even if many in the country now recognize what needs to be done to change direction, it still takes large amounts of courage, luck and strength to find a better path.”²⁸² There are debates as to why the Industrial Revolution started in Western Europe, and in particular, why Britain. Did it stem from cultural and educational advantages? On the other hand, it appears that the economic power of China “can be traced back to the market-based policy reforms it made in 1979,” says Beattie.²⁸³

Beattie makes the following conclusions:

“Even when credible national and international institutions do exist, they aren’t necessarily used properly. The financial crisis that started as a credit crunch in 2007 and exploded dramatically in 2008 was not caused primarily by a failure of global regulation; it was caused by a global failure of regulation. That is, national regulators and national policy makers had lots of tools to stop fancy financial assets from being created, given ludicrously unrealistic prices, and [then] sold on. In a whole string of countries they chose not to use them. The coming years will see which countries will learn the lesson and which countries cannot.”²⁸⁴

Beattie notes that the United States must address the flaws that brought its financial system to crisis, or face the chance of going backwards like Argentina. Alan Beattie applied critical thinking, reasoning that countries faced dire consequences unless they made the necessary changes to provide a framework to ensure financial services industry functions effectively. The road map bar for Beattie’s ideas is red because of a lack of specific process that could be used in a strategy to prevent a future crisis. His conclusions warn about the need for change in the right direction, but there is no new strategy.

In *13 Bankers: the Wall Street Takeover and the Next Financial Meltdown*, Simon Johnson and James Kwak outline how Wall Street’s influence in government evolved over the three decades prior to 2008, and identify a solution for banks ‘too big to fail.’ They described a Wall Street-Washington complex that now exists that allows the big banks access to Washington politicians. This access, in combination with lobbyists and campaign donations, creates an oligarchy, “a group that gains political power because of its economic power, and then uses that political power for its own benefit.”²⁸⁵ Their

solution for banks ‘too big to fail’ is to break up the big banks: the commercial banks to 5% of US GDP and the investment banks to 2% GDP. The qualifier for size is the amount of exposure to complex investments and interconnectivity to other institutions. To keep banks from moving (the problem) offshore requires a solution that can be adapted worldwide.²⁸⁶

With new resized banks, competition will provide the discipline to prevent the decision-making and risk taking that created the 2008 debacle and, in the long term, require less regulation. If managers ignore the new culture and put their institution in distress, a government can let the bank fail without concern of consequences or ripple effects. The road map for Johnson and Kwak is yellow, as they provide the idea of reducing the size of the big banks so that they can be allowed to fail if mismanaged, and still not bring down the rest of the economy.

The Group of Twenty (G20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The Financial Stability Board is the global body established by the G20 “to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.”²⁸⁷ The board, which comprises senior international regulators, has been working on a list of big banks around the world, and regulations to ensure financial stability is secured. This committee can play an important role in resizing banks around the world.

“You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete,” claimed Richard Buckminster Fuller (1895-1983), architect and inventor, who is considered one of the most creative thinkers of the 20th century.²⁸⁸ In the road map, the four different approaches to the crisis all pointed to the need for change. However, two of the writers, Krugman and Beattie, had a common theme: the requirement for long-term financial reform. Ferguson built on the concept of the evolution of financial products over the centuries. There were two important ideas identified that can be incorporated into a new model: new institutional economics and evolutionary economics. Both apply evolutionary approach to the way institutions form and change. They overlap in many areas including relying on complex interdependencies as well as competition to drive the economy.²⁸⁹

Thorstein Veblen had suggested a role for Darwinism in economics at the turn of the 20th century. The concept of institutional economics developed from Veblen’s work. Why did ideas like the new institutional economics and evolutionary economics languish for so long? With the rising standard of living following the Second World War, progress was taken for granted in the West. It didn’t need to be explained, it was self-evident. Darwin’s evolutionary theory was widely viewed as irrelevant because survival was no longer a problem. There was a belief that technology and reason could make us masters of our own environment. Then in the 1970s and 1980s the shocks began. The oil shortage flagged concern about resource depletion and the growing menace of environmental pollution. This was followed later by concerns over global warming. Economists began looking at new institutional economics as a response to questions not well-explained by neoclassical economics. Evolutionary economics and the new institutional economics share the relationship between social change and economics, but evolutionary economics was considered a concept that still required further work.

Then the other shoe dropped – along came a series of economic shocks. The Asian Crisis of 1997 involved mainly Indonesia, Thailand and Korea. It was precipitated by currency problems in Thailand and spread to near-by emerging markets. The cause was the manipulation of the Thai economy by the ruling oligarchy. The following year came the Russian crisis. The 1998 Russian challenge was caused by mismanagement of the country's financial markets that precipitated a debt and currency crisis.²⁹⁰ The crisis rolled into the US via Long-Term Capital Management, a speculative hedge fund. For a while after it was established the fund was applauded – generating 40% returns annually. In the four month period following the Russian crisis, the fund lost \$4.6 billion. Interest rates were lowered and a consortium of banks led by the Federal Reserve Bank of New York bought out the fund, and eventually closed it in 2002. The involvement of the Federal Reserve players, many believed, created moral hazard, with financial institutions taking greater risks in the future, believing the Reserve Bank would intervene in the event of trouble. In 2000, Enron was the seventh largest company in America (based on fraudulent accounting practices). The company provided millions of dollars of support for George Bush's 2000 re-election campaign. In late 2001 Enron declared bankruptcy, eventually identifying \$70 billion in losses from its business, and two billion dollars in losses to trustees and employees. Enron was the largest corporate bankruptcy in US history until the WorldCom bankruptcy the following year.²⁹¹ In 2002, WorldCom, the second largest long distance telephone provider in the US, declared bankruptcy.²⁹² Creative accounting practices had caught up to another company. Five years later, the housing bubble burst and the financial crisis of 2008 emerged. This suggests that economies are not self-equilibrating, except to laissez-faire diehards. In September 2011, a new voice, Occupy Wall Street, began focusing on the economic challenges of the middle class. The Occupy Wall Street protests highlight the plight of the US economy and slam the corporations behind it. This grass roots organization is laying the blame for the economic crisis solely at the feet of the big banks. Now there is a voice in the community, bringing attention to the problem, while creating a dialogue to identify a solution.

As discussed previously, there is a need to challenge the blind faith and convictions in the present deregulated market, and introduce interventions to reduce the influence of the dominant institution, the corporation, on the government. The Occupy Wall Street protesters remind us that, since the 2008 financial debacle, there has been no progress on significant reforms of the financial services industry. The wealthy in collusion with powerful people in government targeted by Occupy Wall Street protests, include the Washington-Wall Street corridor oligarchy identified by Simon and Kwak. Douglass North demonstrated that economic performance is determined largely by the kind and quality of institutions that support markets. New institutional economics explains the determinants of institutions (rules, regulations, conventions), and their evolution over time, and evaluates their impact on economic performance and efficiency. There is a need for rules and regulations for 'too big to fail' banks. The goal is to make the banks small enough to fail. There is a need for accountability for the connection between politicians and Wall Street and corporate America for the financial crisis and the growing economic inequality gap. New institutional economics creates the opportunity to apply both the neo-classical economics and evolutionary economics to a new economic model, one that

is fair to the middle class. The time has come to incorporate these processes into the solution of accountability for the financial services industry.

Conclusion

The economic debacle of 2008 affected many people at many levels and in various combinations – their jobs, their homes and their retirements. Paul Krugman notes that while the economy will not slip into a depression, the problems that affected the 1930s had a comeback. The world economy has turned out to be much more dangerous than anyone had imagined. Krugman notes, "...a large part of the increase in financial globalization actually came from the investments of highly leveraged financial institutions, which were making various sorts of risky cross-border bets."²⁹³ Now we realize that it is more than just a downturn in the market, and wonder if it is not a negative aspect of the globalization of markets that expanded rapidly in the past couple of decades. When one looks at events prior to the Great Depression, one finds it was preceded by an era of globalization. Allan Beattie noted, "The first great era of globalization between 1880 and 1914, was...the apotheosis of the dominance of European colonial powers over the rest of the world."²⁹⁴

The first era of globalization, before World War I, was driven by the technological advancements of transportation like the steamship, and the Suez and Panama Canals which sped European and American commerce around the globe. The second era of globalization was driven by the development of telecommunications, computers and audiovisual media that allow instantaneous communication, and the cross-border flow of commodities with great efficiency. During the first era of globalization, Great Britain had the largest navy in the world that ensured trading routes around the world were secure, and during the second era the US maintained the largest navy that ensured Western access to world markets. Both systems appeared to be working well, driven by individualism and materialism. At the beginning of the 20th century, it was said that reason and science were responsible for ongoing progress. In the first decade of the 21st century, it was said that a free and unfettered market drove innovation and development. During the last quarter of the 19th century, 100 families controlled the wealth of the US,

while during the first decade of the 21th century, 5% of the population controlled 95% of the wealth in the US.

After three decades of the self-esteem movement in the late 20th century, the cult of self-esteem has had considerable effect on society, by creating the milieu for the development of extreme individualism. The corporate culture of globalization helped the spread of extreme individualism, a form of self-love that supports a culture of entitlement. This led to narcissism and a declining sense of responsibility. The decisions of a few managers in the financial services industry with a sense of personal entitlement led to decisions that ultimately created an overleveraged financial market that crashed the world economy. The first era of globalization came to an abrupt end with the onset of World War I. In this case, the Emperor of Austria, the Kaiser of Germany and the Czar of Russia lived in a bubble with a sense of personal entitlement, exercised their prerogatives to start a war. One of the main consequences in both cases was the crumbling of globalization and the economic uncertainty and instability that followed.

By the last quarter of the 19th century, supporters of 'laissez-faire' markets had translated Herbert Spencer's 'survival of the fittest' into social Darwinism, which included skepticism that government can run things efficiently, and a belief support for the poor should be discouraged. By the turn of the 21st century, supporters of 'laissez-faire' had distilled the works of Friedrich Hayek and Milton Friedman into the dogma that low taxes and minimal government maximizes opportunities (for everyone). In both eras it was about controlling larger and larger parts of the marketplace. The monopolies of the late 19th century were replaced by the oligarchies of the late 20th century. There is a parallel between the trusts of the Panic of 1907 and the shadow banks of 2008. At the turn of the century, the trusts, the bank-like institutions that seemed to be able to offer a better deal because they operated outside the regulatory system, grew rapidly, only to become the epicenter of a financial crisis. A century later the same thing happened.²⁹⁵ Thirty years of deregulation came to an abrupt and surprising end on September 16, 2008. On that day the Federal Reserve spent \$85 billion to take an 80% stake in American International Group (AIG). Two weeks prior, the federal government had announced it was taking over Fannie Mae and Freddie Mac, lynch pins in the mortgage industry. The message: the US financial sector would not survive without government help. The shining star of US style free market enterprise had faded behind a cloud of uncertainty. This breakdown means increased government supervision is becoming acceptable to more and more individuals. There is a sense that the reduction of regulation has made things worse. The breakdown of the financial markets has created skepticism amongst many economists that the markets can self-correct.²⁹⁶

The growth that resulted from the unregulated laissez-faire marketplace, in the US during the last quarter of the 19th century, positioned the US to overtake Britain in the world marketplace at the end of World War I. The shattering of the first era of globalization coincided with the waning of power of the British Empire. World War I disrupted the markets, and when it was over, 40% of the merchant fleet that had carried materials was destroyed. After the conflict Britain was saddled with massive debt. The national debt of Britain after the war was ten times that of 1914. Britain relied on trade for wealth production, but international trade was disrupted and could no longer provide full employment to its millions of workers. After the war, previous buyers had set up their own industries and no longer needed to buy from Britain.²⁹⁷ The US didn't have

debts to pay off after World War I as they entered the war much later. With the slamming of the global markets in 2008, there appears to be a waning of the power of the US. The combination of downturn in the markets and two ongoing unfunded wars made the US a debtor nation, owing large debts to the emerging market countries, particularly China. Following the 2008 meltdown, there are fewer well-paying jobs for many American workers. Not since World War II has the gap between expenditure and tax revenue been so great for the US.²⁹⁸

While Europe was in shambles, the US continued to grow after the First World War during the roaring twenties. The tremendous economic growth during the last quarter of the 20th century, applying 19th century laissez-faire capitalism of no unions, no social safety net, and minimal environmental considerations, has allowed China to grow at a faster rate than the US, especially since the 2008 economic debacle. After 2008, the economy of China continued to grow, while the sick US economy shrunk. The activities of Walmart, the largest corporation in the world, are a symptom of the disease. Walmart accounts for 10% of all US imports, and China accounts for 80% of Walmart's source of supplies. This colossus of a merchandizing empire allows Walmart to force US suppliers to reduce prices; consequently, to comply, factories in the US are shuttered and jobs are moved off-shore, generally to China.²⁹⁹

At the turn of the 20th century, progressives formed a heterogeneous group espousing many causes, but were never able to establish a national political party. However, some of their ideas were adopted by both Republican and Democratic administrations during the progressive era. In 1907, there were problems with banks, specifically related to trusts that operated outside of the banking system. At that time, there was a media that exposed abuse in the system, which encouraged politicians to enact reforms, which subsequently helped the cause. In addition, the middle class became concerned they might lose their new found affluence to the rise of the super-rich, threatening the dream of upward mobility.³⁰⁰ At the turn of the 21st century, the shadow banking system operating outside the regulated system triggered problems that led to the collapse of an overleveraged market. The progressives in the 21st century remain heterogeneous groups with multiple goals that include financial reform. Fragmentation of the media prevents any opportunity of painting the sharp pictures of abuse as was done one hundred years ago, to trigger political interventions. The middle class has been distracted from debating economic affairs by the use of social wedge issues by the conservatives. The banking oligarchy provides election funds to both Republicans and Democrats; there is no champion to lead significant financial reform. However, there is a ray of hope. The appearance of the Occupy Wall Street protest will educate many more of the middle class to the fact that they have been taken advantage of by a financial system that favors the very rich. This action should sway public opinion to demand accountability from elected officials.

Objectivism did not exist during the first era of globalization. Also, the fascists, the bogymen used by the 21st century conservative libertarians to instill fear and anxiety into the general public, did not exist. Herbert Spencer's belief that an individual had the right to do anything, except interfere with another man's rights did exist, was shared by Ayn Rand a century later. Rand's new morality, an ethics of self-interest, operated with the attitude of unquestioned certainty. Objectivism became popular during the Cold War as a philosophy to defend the capitalist system against the onslaught of communist criticism. Individuals operating under the objectivism mind-set of laissez-faire economics and

minimal government were using the self-love of extreme individualism and not the good self-love of Aristotle. Without the proper self-love, the moral value system of objectivism was bankrupt. An elite seemed to operate oblivious to the consequences to their actions. During the first decade of the 21st century, individuals on Wall Street felt entitled to manipulate the system to keep the fees and bonuses flowing. Prior to 2008, many had confidence in a world view supported by objectivism.

By 2010, the recession was over, but realization has set in that it will be awhile before Main Street and the middle class America recovers. In the US, the American dream of the middle class, that anyone can get ahead, just by working, is under siege – there are not enough good-paying jobs. The other part of the American dream, owning a home has been a liability in the first decade of the 21st century for many.³⁰¹

The system today appears similar to the economic crisis of 19th century North America. During the five recessions of the late 1800s, the rich continued to make money while everyone else struggled. Within a year after the 2008 recession, the rich had opportunities to make money again while the middle class remained nervous about employment opportunities. Since 2008, many individuals have become angry and skeptical of theories like objectivism that supports the system. Their security – jobs, homes and pensions have been ravaged. A consequence of the economic debacle is that many have become disillusioned. Disillusioned suggests disappointment because one discovered that someone or something is not as good as one had believed. However, disillusionment provides an opportunity to learn. For example, one can become disillusioned over the school one chooses to send their children to, or become disillusioned over a new car, when the vehicle is in the garage more than it is in your driveway. In each case, one realizes that decisions one made on information or beliefs was wrong, and a change is introduced. The abuses at the turn of the 20th century drove change as various administrations adopted progressive ideas to bring in reforms to reduce the inequality of the system. In the past, we accepted market fluctuations as part of the system adjusting, but a return to depression economics suggests that there is a flaw in the system that needs to be addressed.

The road map identified processes that can be applied to change. As discussed previously, Niall Ferguson notes that the financial system has always been evolving and changing. Paul Krugman concludes that the events of 2008 indicate there is a defect in the present system that will require changes to prevent another recession. Beattie identifies that once a country starts down a certain economic path it is difficult to change. Ferguson observes that between 1989 and 1998 ten per cent of businesses disappeared. While some US investment banks appear to have become extinct, in fact, they were folded into commercial banks and in this case the species didn't disappear, but became bigger.³⁰² Simon Johnson and James Kwak identify the banks being 'too big to fail' as the issue that needs to be corrected to prevent the next crisis. To their credit they propose a formula to reduce the size and relationships, allowing the large banks to exist with less regulation, and to fail, if managed poorly.³⁰³

The dilemma of the 'too big to fail' is about taxpayer-funded guarantees for speculative banking activities (with the disappearance of moral hazard). In the present system, banks that are too big to fail are required to be bailed out by taxpayer funds, to prevent them from taking the whole economy down. This scenario allows the large banks to raise capital easier than small banks, take bigger and bigger risks, and continue to

payout ever-larger bonuses to their top executives and traders. Over the past three decades, the banks became too large to fail, securing a privileged status that ensures more extensive government protection. The more massive the moral hazard, the greater the problem it creates (that government would save big banks, no matter how horrible their decisions). This also creates political challenges. With increased control of the economy by the big banks comes increased control of government. In the past two decades a new American oligarchy has appeared – a group that gains political power because of its economic power, then uses that economic power for its own benefits. Practically everybody agrees that excessive leverage played a key role in the crisis, and needs to be addressed to prevent this in the future. The Volcker rule, which prohibits banks from proprietary trading and places limits on how much money they can invest in hedge funds and private equity funds, will face the challenge of banks lawyers and, consequently, take years before one can measure its effectiveness.³⁰⁴

Niall Ferguson identified the toxic instruments that took down US investments banks to be the poor standardization of derivatives and the rapid expansion of mortgage-backed securities.³⁰⁵ There is a need for transparency and accountability. Transparency means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information be provided and that it be provided in easily understandable forms and media. At the present time, banks do not want to make the derivatives transparent to the customer. Accountability cannot be enforced without transparency and the rule of law. There is a need to get out of the compartmentalization between work lives and personal life and leaving personal morals and behavior at home. From this change, a new world view to support capitalism will rise, requiring less regulation as belief in the system grows. Look at public health regulations used to protect people against the spread of infectious disease. When the community believes in the system, there is seldom a requirement to use the regulations. Part of the dogma of economic fundamentalism was to believe ‘free markets’ were virtuous. Similarly a new philosophy supporting capitalism that is acceptable will lead to less application of regulations. A concept that started as a counter argument to communism during the Cold War is now used in the 21st century to justify opposition to government intervention of any type, including the intervention in financial services systems that require a healthy level of regulation and oversight. The basis for this thinking no longer exists. A new culture to support capitalism would go a long way in providing the milieu for a new economic model.

In the past, everyone was in awe of the financially successful people who appeared to be doing the right thing, and believed these rich people were quite smart. It now appears that you don’t have to be smart, you don’t have to be talented, and you don’t have to work particularly hard. In fact, the richest people seem to be the most clueless and slow to adapt to change. All you need to do is check your self-respect and ethics at the door and manipulate the system to ensure you get a good piece of the pie. However, when you have people in charge who are products of the cult of self-esteem, they do not hesitate to bleed the system for the short-term as they lack the foresight or temperament to evaluate the long-term consequences of their decisions. Such people are not necessarily evil. They may even embrace an ideology like objectivism to support their decision-making. The system supports them manipulating others for advantage (it gets under the objectivism idea to cause no physical harm). There is no pressure or

requirement to change for these folks. The ‘man, who *saw* this debacle coming?’ group belong with the bunch who believe that a huge ecosystem like the Pacific Ocean can be abused without consequences. (Now with such widespread abuse, there is a sea of plastic waste twice the size of continental US floating off the California coast almost reaching to Japan.)³⁰⁶

Beattie identified that significant change would require the investment of a great deal of time and effort to introduce a new system, as dogmas die hard. One system that supports capitalism along the neo-classical lines, while addressing structure to allow an efficient market, is the new institutional economics. Changes are needed to provide a sustainable wealth to ensure that a self-perpetuating middle class exists who can afford to buy the products they make. Henry Ford had it right as he paid his workers on the assembly line a high wage (for the time) that ensured his workers could purchase the product they manufactured. For Ford, this practice was not compassion or charity; it was called long-term planning. Douglass North identifies the requirement for rules or guidelines in institutional economics. North notes, “You do not get government out of it. What you try to get government, either directly by rules and regulations and property rights, or indirectly, to do is to structure the game so you force the players to compete by price and quality rather than compete in other ways.”³⁰⁷ This system would support two important functions: to grow the middle class, and provide the process to implement new rules for sizing the largest banks. This ensures more competition, and counters negative effects of monopolies that Adam Smith, Thorstein Veblen and Friederich Hayek warned would cause inefficiency in the market place.

Thorstein Veblen saw the life of man as a struggle for existence making it a process amendable to selective adaptation. He believed that social structures, which he labeled institutions, were susceptible to evolution. The rate of change of the individual is proportional to the degree of exposure to the constraining forces of the environment. Any group or portion of society sheltered from the forces of the environment will adapt its view and its scheme of life more slowly, and retard the progress of social transformation. The rich (or as Veblen described them, the leisure class), were sheltered from economic pressures which prevailed at the turn of the 20th century. From this privileged position, as a class they were less responsive to the demands required to change and improve society. There was no penalty for them not to change their view of the world as they were not involved in direct production of goods. In fact, the rate of evolution of the leisure class can slow down change and even conserve outmoded ideas.³⁰⁸

In the pre-industrial era, Veblen noted, the craftsman owned his tools and materials, used his own labor, and produced commodities. The income generated was a fair measure of the effort exerted. Then things changed. Workers no longer owned the tools. The owners of the firms became more interested in making money than in making goods. The acquisitive instinct overrode the instinct of workmanship. Money lending for the expansion of industry expanded. Veblen observed that this established “prescriptive rights to get something for nothing.”³⁰⁹ The 19th century was a period of intensive competition, until the captains of industry recognized that competition was undesirable. Holding companies and trusts were developed, facilitated by investment bankers, monopolies were created.

Veblen believed economic behavior was socially determined, economic organizations were in a process of ongoing evolution, and not all change was progress.

Businessmen introduced inefficiencies into the economy, such as reducing output to create a shortage which, in turn, made profits larger. He noted that a good deal of activity was directed into marketing and advertising, to sell goods of questionable use.³¹⁰ A parallel with the recent housing bubble occurred as vested interests facilitated the processing of high-risk mortgages, not to provide houses for poor people, but to provide products for securitization that would ensure an ongoing flow of healthy fees and bonuses.

Why have laissez-faire economists latched on to the evolutionary theory of science, that is, besides the fact mathematics has not been able to predict how economics functions? Objectivism rode the wave as market fundamentalism went mainstream, and its ethics lost out to a generation of cult of self-esteem. They know that support for the neoclassical theory, that includes mindsets such as the ‘hidden hand’ and the ‘good’ selfishness of objectivism, applies to fewer and fewer instances. They need a new system to explain the situation, and what better bus to ride than the new interest that molecular biology has injected into evolutionary theories. There is an opportunity again to use the dynamics of nature to explain (support) the *existing* economic model (politics). Aristotelian philosophy became the official philosophy of the Roman Catholic Church and was used to explain revelations. Similarly, main stream economists are popularizing the newly embraced model of evolutionary theory to explain laissez-faire economics, as explanations such as ‘don’t feed the beast’ fall more and more into disrepute.

Evolutionary economics can be applied to new ideas. Darwin described evolution as a continuous process of change and believed that most species extinctions were caused by the failure of a species to compete with another species, as part of natural selection. In order for banks ‘too big to fail’ to comply with evolutionary economics, governments need to stand aside when they are poorly managed. One way to achieve this is to incorporate the ideas of the model, to address the large banks that are ‘too big to fail’, is to reduce the size. The new playing field would mean the banks would now compete on the basis of products, price and service. The increased competition will drive the fees down on various products, putting pressure on profits. This will reduce the size of compensation packages and bonuses. Likewise there would be less money for lobbyists. Johnson and Kwak note with smaller banks, “Their domination of the campaign finance system will wane as will the allure of the revolving door.”³¹¹

The emergence of banks that are very large relative to the national economy (of a country) creates risk to the country’s financial system. In the America, the Wall Street Reform and Consumer Protection Act (or Dodd-Frank Act) passed in July 2010 prohibits bank mergers that result in a bank with total liabilities exceeding 10 percent of the aggregate consolidated liabilities of all financial companies, to prevent the emergence of an oversized bank.³¹² The dinosaurs were the most successful land animals, having existed for about 160 million years. However, there is a lesson to learn from catastrophic events, times when many species did not survive. The dinosaurs appeared about 230 million years ago and became extinct 65 million years ago. Bacteria first appeared 3.5 billion years ago and are still evolving.³¹³ It has nothing to do with strength or size and much to do with the ability to adapt. Even with multiple mass extinctions, certain species were able to survive.

Simon Johnson and James Kwak proposed that no financial institution be allowed to control or have an ownership interest in assets worth more than 4 percent of US gross

domestic product, or roughly \$570 billion in assets in 2010. A lower limit should be imposed on investment banks – effectively 2 percent of GDP, or roughly \$285 billion, they say.³¹⁴ Increasing competition would ensure less government intervention. Similar institutions have already been identified around the world. The G20 has assembled a Financial Stability Board that has developed a list of large financial institutions around the world considered too large to fail. The committee has been tasked to develop standards to coordinate regulation and policy. One standard would require globally systematically important financial institutions to hold larger reserves than smaller banks, be subject to greater scrutiny by regulators, and sized to fail.³¹⁵

To fit any 21st century model of evolution, the large banks must be restructured for competition and selection to extinction. This plan has the six largest banks in the US downsized to the level they were in the mid 1990s. Implicit in this observation is that it would be easier to implement these changes than to try to develop legislation to institute triggers for intervention in the present large banks.³¹⁶ The challenge with regulations is no matter how hard the regulators try and how smart they are, they will not be able to keep on top of the risk. However, if large banks could be set up so that they could fail, then less regulation for monitoring would be required. For new regulations to work, the new system needs buy-in from ‘stakeholders’ to support the interventions. When people recognize the system is the same (except smaller banks), there will be less dissonance. When people believe in the system, then there is less need to invoke the power of the regulations. The new system would require resizing the big banks to reduce their size and influence so they can fail, if poorly managed. This means changing the rules to limit the size of banks so that competition and Darwin’s theory of natural selection can apply. These rules would require the banks to shrink and to reduce their leverage complexity and interconnectedness. The final structure should ensure losses are born by creditors and other stakeholders, not the taxpayers.

Where is the main resistance to change? There is a small group who has been made very wealthy by this system. Change is a threat to them. It is this group who “loves its status quo so much that it sees its own change as an underhanded attack on its way of life...”³¹⁷ This story has repeated itself throughout history. During the decline of the Spanish Empire, “...the aristocracy would not give up enough of their privileges to preserve the system that made them rich.”³¹⁸ Niall Ferguson noted most sudden imperial falls are associated with fiscal crisis – typically sharp imbalances between revenues and expenditures.³¹⁹ Change to the financial services industry requires adopting only one process, Darwin’s natural selection. This will allow the development of banks that are small enough to fail, without significant collateral damage. To fit the model, the large banks would need to be scaled back such that when they made poor decisions and failed, they would have minimal effect on the rest of the economy, if they fail. There is an economic system to support this change, the new institutional economics. In this system the ‘institutions’ would include the rules and regulations in place to ensure banks are right-sized for the model. In the US, the middle class pays most of the federal taxes, and to maintain the present system it is necessary to prevent further assaults on the middle class. This new system will achieve this goal.

Federal Reserve Chairman Bernanke told the Financial Crisis Inquiry Commission “To achieve both sustained growth and stability, we need to provide a framework which promotes the appropriate mix of prudence, risk-taking and innovation in our financial

system.”³²⁰ The new proposed model can achieve these goals. This new framework of the banks right-sized for Darwinian competition would be supported by the new institutional economics. New institutional economics incorporates the role of complex interdependencies, as well as competition as drivers of the economy. This new institutional economics can provide the necessary structures and rules to provide the transparency needed for accountability. This new support system would still allow selfishness (the self-love of Aristotle or self-love of the cult of self-esteem) and other self-serving activities. However, the system will control such activities through the imposition of external social and economic structures, not by attempting to eradicate it. This new culture will gradually introduce a morality that presently doesn’t exist. In turn, this would provide a new model consistent with processes identified in the road map: employing competition that works within institutional economics, creating a system that addresses Bernanke’s criteria, while providing the fairness sought by progressives.

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