

Jonathan Schechter – “Corpus Callosum” Column  
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*“Risks in financial markets, including derivatives markets, are being regulated by private parties. ... There is nothing involved in federal regulation per se which makes it superior to market regulation.”*

Alan Greenspan - 1994

*“Large amounts of risk, particularly credit risk, have become concentrated in the hands of relatively few derivatives dealers. ... The troubles of one could quickly infect the others.”*

Warren Buffet - 2003

This is a column about beliefs. I’ll start with some of mine.

I believe in science. Like any belief system, at its essence science is simply a means of understanding the world. What distinguishes science is that it is based on universally replicable outcomes – for something to be validated by science, it must be predictably true anywhere, anytime. All belief systems pursue the truth; science is distinguished by its pragmatism and relative lack of ambiguity.

I believe in evolution. At its core, evolution is merely an application of solid science. Evolution can be disputed, but not by using scientifically-verifiable facts.

I believe there’s a God. Further, I believe that, some day, science will discover a “God gene,” something in our DNA that allows us to be aware of God. Following Darwinian principles, I also believe that this God gene confers a survival advantage upon those who have it. Absent concrete proof of a God gene, I base my belief on the fact there are no atheist cultures; to me, this provides compelling, albeit indirect, evidence of both God and a God gene.

Similarly, I believe that, in order to survive, humans have a genetically-based and evolutionarily-confirmed need to make sense of the world, and to organize themselves accordingly. Because religions are very good at this, they have flourished; because different environments present different survival challenges, different religions have emerged.

Finally, I believe that, on balance, throughout history, ideologues and zealots have done far more harm than good. However, I also believe that, as a species, our need for order is so strong that we find the clear and simple messages peddled by ideologues and zealots very appealing indeed.

I mention all this because it’s becoming increasingly clear to me that the current financial crisis is threatening more than just the world’s economic health; it is also creating a profound philosophical – if not theological – crisis among those who, for the past few decades, have been our high priests of economics and finance. In turn, this metaphysical crisis will make the economic crisis that much more difficult to solve. Why? Because all evidence suggests that, to address the core issues, we will have to simultaneously address the manifest problems with free-market libertarianism. However, because free-market libertarianism is essentially a religion for so many of our financial and political leaders, it seems highly unlikely they will readily acknowledge its shortcomings, much less be willing to modify or abandon its tenets.

To get a sense of the problem, consider Alan Greenspan, the self-professed libertarian and long-time head of the Federal Reserve. Dubbed “The Oracle” by his many followers, he was lauded as “...the

greatest Fed chief in history” by Senator Phil Gramm (who, as a fellow believer, led the Senate fight to keep financial markets deregulated).

One thing that distinguishes true believers is that when events are at odds with their world view, they blame the “other,” some outside force that fouls the purity of their system and keeps it from operating as it should. Sure enough, in the fresh-off-the-press updated paperback version of his biography, Greenspan blames the current financial mess on financial types who let greed come between them and the self-regulation that hallmarks a perfect market. To Greenspan, it wasn’t the system that was at fault; instead, the system’s perfection was sullied by those who did not treat it with the reverence it deserved.

To me, Greenspan’s view is sort of like blaming the dog for eating all his food at one time, rather than saving half for later in the day. The dog ate all his food because that’s what dogs do – eat what’s in front of them. In a similar vein, financiers got greedy because that’s what they do – make as much money as they can. To blame them for succumbing to greed is like blaming the dog for succumbing to eating all his food at once: to expect otherwise means you really don’t understand dogs. Or Wall Street.

Yet rather than adapt their system of beliefs to human nature, Greenspan and his fellow travelers expected human nature to adapt to their system of beliefs. Indeed, just last week I attended a conference at which a panelist – a senior Treasury official during Bush’s first term and now a senior McCain economics advisor – said the fundamental cause of the current financial crisis was government regulation. His solution? Get the government out of the markets altogether, including no bail-outs. While I admire the clarity of his vision, the evidence strongly suggests he’s nuts – during the Bush administration, his worldview got about as good a chance to work as it ever will, and the results speak for themselves.. Yet for this true believer, outcomes were clearly not the issue.

Why does this matter? Because over the next several years, the nation and world are going to have to fundamentally examine the world’s economic order, particularly how a globalized economy works, what the ramifications are for different nations, and whether and how to regulate the system. Even in the best of circumstances, such work will be very hard; it will be harder still if those doing the work carry so much ideological baggage that they are unable to take a clear-eyed look at reality.

(In another context, Sarah Palin approach to global warming presents the same dilemma. She argues there’s no reason to study its causes; instead, we should simply act. But such a simple solution begs an equally simple question: “If we don’t properly diagnose the problem, how do we know what cure to prescribe?”)

Given the numbers, prestige, and power of those who have bought into the libertarian, unfettered markets philosophy, given the depth of their beliefs, and given the magnitude of the problems that have occurred on their watch, it seems highly likely that, when the analysis does begin, cognitive dissonance will rule the day. Rather than a clear-eyed analysis over what went wrong, instead we’ll get something akin to a theological debate over the nature of sin and sinners. In such discussions, the quiet voices of pragmatists tend to get drowned out by the caterwauling of true believers; I fear that’s what we have to look forward to over the next few years.

Since World War 2, the US has been blessed by its economic strength. In particular, our wealth has allowed us to smooth over a lot of the political, sectarian, and economic problems that have faced other nations and regions. However, due to a combination of incompetence, poorly thought-out policies,

questionable beliefs and just bad luck (all of which are among the far-too-human factors that have to be taken into account when considering next steps), our economic strength is waning, and with it our cushion of comity. Over the next few years, Jackson Hole's economy will fare better than the nation's, and as a result, we should also be able to avoid some of the ugliness that will likely ensue as tight budgets create great social and economic disruption. However, we too are at risk of being torn apart, in particular by our passion for our home and our widely divergent beliefs about how best to address the future..

Hope lies in two places.

First, if we choose to be pragmatic and ask ourselves what actually works, there are leaders we can turn to and examples we can emulate. Warren Buffet comes to mind; closer to home, so to do Mr. and Mrs. Old Bill. If we can adopt such folks as role models, it will be easier to marginalize the loud and unhinged fringe players who will inevitably put ideology ahead of progress.

Second, Jackson Hole is finally – albeit slowly and painfully – developing a clearer sense of what it wants to be, in particular of what kind of legacy it wants to leave for future generations. The clearer this sense can be, and the more universally accepted it becomes, the less contentious our community will be. To achieve such a vision will require a tremendous amount of work; to deal with the consequences of not achieving such a vision will exact a far greater price.