Three American Myths That Need Updating

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Many people view stories and mythology as just art or entertainment, but they play a much larger role in our lives than that. In fact, the myths that are most powerful are so ingrained in our thinking that we are not even aware they exist. They shape how we view the world: what we focus on as important, what we believe works, and what we rely on as real. They are so powerful in fact that when confronted with data to the contrary, we often continue to base our decisions on our mythical stories rather than the results that are right in front of us.

Let's look at a three of these myths and their relationship to the current dialog on solutions to our fast deteriorating economy.

Free markets are the solution to every problem.

Even Adam Smith, the father of capitalism, was specific on this point. He made it very clear that there were many areas that were too important for the good of the whole system to entrust to the free markets. This idea that free markets will solve every problem is a modern myth not part of the original capitalist doctrine.

The free market myth is invoked today in two major areas: banking and health care. The opponents of progressive plans that have been put forward argue that we cannot "nationalize" banks or "socialize" medicine because … Unfortunately, that is where many of their arguments stop. When they do go further it often take the form: "We are not the Soviet Union" or some equally loose and emotionally charged reference. Alternatively they may assert that we will lose the high quality services that we currently enjoy.

On closer observation, these assertions are not supported by facts. We do not have the best health care by any objective measure. In fact, our health care is near the bottom for the industrialized world. This is due in large part to the fact that our health care system is fragmented, inefficient, and increasingly costly. Any attempt at serious change is attacked as socialized medicine. And, we all know how inefficient the government is in comparison to the efficiency of free market competition.

Just one question, if the free market system is so efficient, then why are these problems occurring under free market reign? All of the countries where health care ranks above ours based on objective measurements have systems that opponents would call socialized medicine. The data do not support the myth.

Another concern is that the attempts to bail out the banks by having the government invest in them amounts to "nationalization" of the banking system. There is no question that the pending bank failures represent a serious crisis for our entire society. The problem has to be addressed.

There appear to be two alternatives to the approach being taken, and both have advocates. We could do nothing and just let the "weak" banks fail. That is the free market approach. The problem is this will likely bring down the entire economy, including any healthy banks out there, and send us into a depression at least as severe as the 1930s. Or, we could just give the banks taxpayer dollars to prop them up, and not exert any taxpayer (government) oversight or expectation for repayment.

The main argument I have heard against nationalized banks is that in countries with large nationally controlled banks the investment decisions are based on political connections and cronyism. Of course, social connections and cronyism are not a big problem in free market bank lending – right? I think we are talking about the social nature of humans here, and whether it is the government or a large bank, those unsavory dynamics are the same. If the free market system has failed us (the failure being either accept a world-wide great depression or give the big banks taxpayer dollars to continue their failed practices) then perhaps it is time to try something else.

Again, the same question, if the free market system is so efficient, why are these problems occurring under free market reign?

Raising taxes slows the economy and lowering taxes stimulates the economy.
Again, Adam Smith comes down on the opposite side of our mythology. He saw taxes as necessary, and progressive taxes (where the wealthier you are the higher percentage you pay) as a moral obligation. But then he viewed the economy as a function of the social system. Those who collected a larger share of the collective wealth owed more back to the maintenance of the social system that allowed them to collect their wealth in the first place: the more of the wealth you collected, the larger your debt to the society that made it possible.

While a case might be made that lowering taxes on lower and middle income people can stimulate the economy, because those people tend to recirculate the money by spending it, lowering taxes on the upper middle class and wealthiest people has little effect on the economy. People who have accrued that much wealth tend to invest their money rather than spend it. Spending money recirculates it, investing it implies that you will wind up with an even larger share of the society's overall wealth.

This seems to be born out by the times we have tried across the board tax cuts. The gap between rich and poor gets larger. The number of consumer dollars shrinks, and the economy goes into a recession. It is not a coincidence that current unemployment and financial figures are being called the worst since the 1980s or the 1930s. Those were the two other times that were preceded by across the board tax cuts.

On the other hand, periods where we have had higher taxes on the wealthy end of the spectrum have yielded periods with a stronger middle class, greater economic growth, and apparently not much negative impact on the wealthy individuals paying the higher tax rates, presumably because they too benefit from the additional consumer dollars and the healthy economy.

Individualism is more important than social cohesion

It should be obvious from the events of the past year that the captains of industry, who paid themselves hundreds, or even thousands, of times what the average individual makes because they believed they were so important, independent, and individual, were in fact highly dependent on society for their position and achievements.

Adam Smith was right to view the economy as a function of the social system. When individuals lose their connection to the social system that enables them and extract too much and repay too little, they destroy that system. A cancer cell is very efficient and successful from its own cell's perspective. However, unless it is controlled, it eventually kills the body in which it exists, and by killing its support system kills itself. Perhaps it is time to re-evaluate our narcissistic attraction to individualism at all costs and replace that myth with one that emphasizes our dependence on our social system and the importance of the overall health of our society.

It has been said that the difference between people with severe psychological disorders and those considered better adjusted is not in their individual actions. The better-adjusted individuals are willing to give up behaviors that are not working and try new ones. Those with severe psychological disorders try the same unsuccessful behaviors over and over hoping that the result will be different next time.

So next time you hear someone say that the way to stimulate the economy is to cut taxes for everyone, or that an alternative approach to solving our health care issues should not be considered because it will *socialize* medicine, or that we should not consider having the government take an equity stake in banks and their decision making in order to save them because that will *nationalize* the banks, stop and think. If the free market created, or at least allowed us to get into this mess, then perhaps we should consider an alternative behavior if we want to get out of it. After all, even Adam Smith warned us that the free market was not the answer to everything.

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