
Ideology Verses Reality

George H. Blackford (2010)

Over the past forty years, the [Conservative Movement](#) has been incredibly successful in promoting ideas derived from the failed nineteenth century ideology of free market capitalism. This movement has completely dominated the Republican Party since the 1980s and has dominated the leadership of the Democratic Party since the 1990s. This dominance, in turn, led to the systematic dismantling of the regulatory system put in place during the 1930s, 1940s, and 1950s that was designed to protect society from the kinds of fraudulent, reckless, and irresponsible behavior in the financial system that led to economic catastrophes in the past. It should come as no surprise that this dismantling led to yet another economic catastrophe.¹

The leadership of the Conservative Movement has a very simplistic view of reality based on their concept of liberty and freedom. It is their belief that individuals should be allowed the freedom to fend for themselves in free and unfettered markets to provide for their own economic well being without government interference or guarantees. It is the free choices of individuals in free markets that create prosperity and wealth in society, in their view, and individuals owe nothing to society save to honor the contracts they freely enter into. And they definitely do not believe in government mandated social insurance programs.

Government mandated social insurance programs interfere with the liberty and freedom of those, such as themselves, who do not wish participate in or pay for these programs. They simply do not believe that it is the purpose of government to provide for the common good other than to provide for national defense and to protect property rights.

The leadership of the Conservative Movement believes that if government will just get out of the way, the free choices of individuals in free and unfettered markets will optimize human well being within society through the discipline of the marketplace.

¹ See [The Rise of Utopian Capitalism](#), [Why Blame Republicans?](#), and [Where Did All the Money Go?](#).

Those who work hard and are productive will be rewarded by the marketplace through higher incomes and their ability to accumulate wealth in proportion to their contribution to society. Those who do not work hard, are not productive, and do not contribute substantially to society will not be so rewarded. (TP)

To the extent government interferes with this market discipline, people no longer have an incentive to work hard, productivity falters, output falls, and we are all made worse off. In this view, the distribution of income and wealth so determined by free and unregulated markets is fair and just, and anything the government attempts to do beyond national defense and enforcing property rights is unfair and unjust and does more harm than good because it destroys market discipline and causes productivity and output to fall.

The arguments explaining this view of reality are put forth with elegance and logical infallibility in such works as Ayn Rand's *The Fountainhead* and *Atlas Shrugged*, Friedrich von Hayek's *The Road to Serfdom*, Milton Friedman's *Capitalism and Freedom* and *Free to Choose*, Ludwig von Mises's *Human Action*, and the American Conservative Union's *Statement of Principles*, works that have inspired conservatives to ever higher levels of passion over the past sixty years as well as provided the backbone of their arguments. In addition, the academic discipline of economics has provided a logically consistent and mathematically elegant model of market behavior that describes how this ideal system of human interaction in markets is supposed to work as well as the prerequisites for the existence for such a system to actually work. (Kuttner Taleb Dowd Galbraith Fox Musgrave Stiglitz Klein Johnson Smith)

Why Ideology Fails

Works such as those listed above, along with the heroic efforts of academic economists have been distorted out of all sense of proportion to provide an intellectual foundation for a simplistic ideological view free market capitalism that is totally out of touch with reality. This is not surprising. After all, *the literature that provides the passion for this ideological view is based on a straw man caricature of tyrannical government that completely ignores all of the essential functions that government performs in our daily*

lives and without which civilized society is impossible—the kinds of functions so beautifully explained by [Douglas Amy](#) in his website, www.governmentisgood.com.

At the same time, the academic model that explains how, and under what circumstances such an economy is supposed to work not only completely ignores the role of government in our economic and social lives, but the assumptions on which the logical consistency of this model depends—the most important being that no economic actor has the power to [directly influence a market price](#), all market participants have [perfect information](#) as to the determination of all market prices, that there are no [external costs or benefits](#) associated with the production or consumption of any good, and that [people behave rationally](#)—are impossible to achieve in the real world.

The fact is, there is no such thing and there never can be such a thing as a free market that is independent of government. It takes the heavy hand of government to make markets work, and for whom they work—the society as a whole or the economically and politically powerful few—depends crucially on government policy. ([Amy Johnson Kuttner](#))

Markets in the Real World

It is obvious to all but the free market ideologue that the incomes people receive, and the wealth people are able to accumulate as they participate in a market economy do not necessarily correspond to how hard they work or how productive they are or by how much they contribute to the society as a whole. It is also obvious that the accomplishments of individuals are not achieved by their own efforts alone, but are crucially dependent of the social system in which they live that makes their individual accomplishments possible.

No one can deny that the fortunes accumulated by [Bill Gates](#), [Paul Allen](#), [Steve Jobs](#), [Steve Wozniak](#), [Robert Noyce](#), [Gordon Moore](#), [Andrew Grove](#), and countless others who have made immeasurable contributions to the micro computer revolution over the past forty years are comparable to their immeasurable contributions to the well being of the society as a whole and are well deserved on that account alone. They are living

examples of everything the mythical world of free market capitalism is supposed to be about.

It is also true, however, that they did not achieve their immense accomplishments on their own, that their accomplishments were built on the backs of giants throughout history who developed the science that made their successes possible and depended crucially on the university system that has evolved over the centuries that made that science possible, that their successes would have been impossible without the tremendous technological breakthroughs in the aerospace program and as a result of government sponsored computer research during World War II, that there is a certain amount of luck and noncompetitive monopoly power that has contributed to the size of their fortunes, that had they been born in a different era or into families living in desperate straits in Sub Saharan Africa or some other desperate place in the world rather than in this era and into moderately well to do families in the United States they would have been far less successful in life, and that *as a result of all of these social factors and many more, they owe an immense debt of gratitude to the society that made it possible for them to flourish in the way they have flourished.*

When we look at the income received and wealth accumulated by others in today's world, however, we see a very different picture. When we look at the incomes received and fortunes accumulate by the executives of General Motors as they drove the world's largest automobile company into bankruptcy, by the savings and loan owners and managers as they financed the commercial real estate bubbles in the 1980s, by the corporate raiders who drove American businesses deeper and deeper into debt and countless firms into bankruptcy, by those who hyped worthless internet stocks in the 1990s, by the executives of Drexel Burnham Lambert, Enron, Global Crossing, WorldCom, Fannie Mae, and countless other corporations that used insider information, stock manipulation, or phony accounting practices to generate paper profits to justify increases in their multimillion dollar salaries and bonuses as they ran the businesses they headed into the ground, by those who originated millions of subprime and alt-A mortgages through fraud and deception in the 2000s, by those who gave unwarranted triple-A ratings to the mortgage backed securities that used these mortgages as

collateral, by those who securitized these mortgages and created the worldwide crisis we are in the midst of today we do not find living examples of everything the mythical world of free market capitalism is supposed to be about. Instead, we find living examples of what real world unregulated free market capitalism is actually about.²

The unconscionable incomes and massive fortunes these individuals accumulated have nothing to do with economic efficiency or the contributions these individuals have made to the society as a whole. Their contributions to economic efficiency and to society as a whole were negative, and even if they returned all of the income they received and wealth they accumulated to the society that made their success possible there would still be a tremendous net loss.

Over 8 million people lost their jobs since the housing bubble burst in 2006, and 4 million families lost their homes. In 2010, another 4.5 million families were seriously behind in their mortgage payment or in the process of foreclosure. "In the fall of 2010, 1 in every 11 outstanding residential mortgage loans in the United States was at least one payment past due but not yet in foreclosure." Nationwide, 10.8 million families—22.5% of all families with mortgages—owed more on their mortgages in 2010 than their houses were worth. In Florida, Michigan, and Nevada more than 50% of all mortgages were underwater, and it is projected that by the time this crisis is over as many as 13 million families could lose their homes. ([FCIC](#)) All of this is the direct result of the fraudulent, reckless, and irresponsible behavior of those in charge of our deregulated financial institutions, and somehow this is supposed to be the fault of the individuals who lost their homes, their jobs, their life's savings, and their hopes and dreams for the future while those who perpetrated the fraud that caused this disaster and made billions of dollars in the process are held blameless? There is a terrible perversion in an ideological view of the world that blames the victims for allowing themselves to be preyed upon by those who are in a position to take advantage of the weak and vulnerable and that extols the virtues of the predators who made fortunes in the process of creating an economic disaster for the rest of society.

² See [Where Did All the Money Go?](#).

The ideological explanation for the failure of income to grow for 90% of the families over the past forty years³ in terms of their refusal to work harder or because they haven't increased their productivity or contributed more to the society as a whole makes no sense at all. Hours of overtime worked in the manufacturing sector increased by 67.9% from 1980 through 1995 while output per hour worked increased by at least 30% (and probably more than 50%), and total manufacturing output increased by 42.8%. At the same time, the average hourly earnings in the manufacturing sector decreased by 7.2% in real terms after adjusting for the increase in consumer prices. In other words, even though hourly workers in the manufacturing industries worked harder, were more productive, and the total output they produced to the benefit of the society as a whole increased, they were rewarded by a decrease in their real wage.

The incomes people receive and the wealth people are able to accumulate as they participate in a market economy depend as much on economic and political power as on hard work, productivity, and economic efficiency, and who has that power depends crucially on government policy. When government policy

1. Opposes public financing of political campaigns and allows the money provided by political PACs, corporations, and wealthy individuals to dominate the political process,
2. Favors unregulated markets,
3. Allows the concentration of monopoly power into the hands of larger and larger corporations,
4. Allows the profits of international banks and corporations to determine international trade policy,
5. Not only opposes collective bargaining on the part of labor unions, but employs government power to suppress strikes and refuses to enact and enforce laws against unfair labor practices,

³ See [Where Did All the Money Go?](#).

6. Provides massive subsidies to industry through the provision of public infrastructure, national defense, enforcement of civil law and order, and public education for the labor force as well as for the population at large public while at the same time,
7. *Imposes a regressive tax structure on the populace that does not recoup the costs of these subsidies from those who benefit from them the most, but rather places this burden on the backs of those who benefit from them the least,*

economic and political power gravitates into the hands of the economically and politically powerful few, and as their incomes and wealth soar to astronomical heights, fraud and predation flourishes, the social infrastructure that made their success possible declines, and the vast majority of the population founder in the wake of the economically and politically powerful few.

On the other hand, when government policy

1. Provides public financing for political campaigns and offsets the money provided by political PACs, corporations, and wealthy individuals by providing equal time and equal funds to political campaigns,
2. Favors regulating market behavior to provide for the common good,
3. Prevents the concentration of monopoly power into the hands of larger and larger corporations whenever desirable and regulates the monopoly power that cannot be eliminated whenever necessary,
4. Maintains a balance in trade that benefits the American people rather than maximizes the profits of international financial institutions and corporations,
5. Not only encourages collective bargaining on the part of labor unions, but employs the power of government to enact and enforce laws against unfair labor practices,

6. Provides massive subsidies to industry through the provision of public infrastructure, national defense, enforcement of civil law and order, and public education for the labor force as well as for the population at large public while at the same time,
7. *Imposes a progressive tax structure on the populace to recoup the costs of these massive subsidies from those who benefit from them the most and does not place this burden on the backs of those who benefit from them the least,*

economic and political power gravitates from the privileged few into the hands of the vast majority of the population, and while the incomes and wealth of the few still grow to astronomical heights, the income and wealth of those few do not soar to such dizzying heights that the vast majority of the population is left behind; income and wealth does not flow from the kinds of massive fraud and predation that lead to economic catastrophes, and the social infrastructure that made their success possible is able to grow to the benefit of future generations. ([Amy Kuttner](#) [Musgrave](#) [Johnson](#) [Lakoff](#) [Galbraith](#) [Stewart](#) [Smith](#) [Black](#) [Rodrik](#))

The Essential Role of Government

Not only are the simplistic ideas of free market ideologues simply wrong when it comes to explaining and justifying the distribution of income and wealth in society, their simplistic caricature of government as being little more than a tyrannical force that must be resisted at all cost ignores the vital and essential role government plays in guaranteeing the freedom and liberty of individuals in our society.

This caricature fails to acknowledge that there can be no freedom or liberty for individuals within society in the absence of an effective government dedicated to guaranteeing these rights. For those who doubt this proposition, I invite you to spend your next vacation in Juarez, Baghdad, Kandahar, Mogadishu, or any of the innumerable other places on this lonely planet where the government is either unable or unwilling to protect the rights of all individuals from the predations of others. In so doing you will be able to gain firsthand experience with what individual freedom and liberty are

like in a world with a nonfunctioning government or a government that only protects the rights of the privileged and powerful few and ignores the rights of the rest of the population. ([Amy Kuttner](#))

Free market ideologues are also simply wrong in their simplistic belief that government interference with free markets must necessarily lead to economic inefficiency and that the only way to achieve economic efficiency is through unfettered free markets.

The clear and unambiguous lesson of history is that the lack of government interference in markets leads to appalling levels of waste, fraud, and inefficiency combined with an appalling level of human degradation for those who lack the personal, political, or economic power necessary to defend themselves from those who seek to prey on the vulnerable. No matter how mathematically eloquent, logically irrefutable, and emotionally appealing the simplistic beliefs of free market ideologues may be as they pertain to the magical powers of free market capitalism in a world free of government intervention, the simple fact is that these beliefs are completely out of touch with the real world. They only apply to the mythical world free market ideologues have created in their own minds, and all of economic history belies the relevance of these simplistic beliefs to the real world in which we actually live. ([Smith](#) [MacKay](#) [George](#) [Marx](#) [Veblen](#) [Roosevelt](#) [Haywood](#) [Jones](#) [Fisher](#) [Josephson](#) [Keynes](#) [Polanyi](#) [Schumpeter](#) [Boyer](#) [Galbraith](#) [Musgrave](#) [Kindleberger](#) [Minsky](#) [Stewart](#) [Zinn](#) [Stiglitz](#) [Phillips](#) [Kuttner](#) [Morris](#) [Taleb](#) [Bogle](#) [Harvey](#) [Dowd](#) [Galbraith](#) [Baker](#) [Stiglitz](#) [Klein](#) [Reinhart](#) [Fox](#) [Johnson](#) [Amy](#) [Sachs](#) [Smith](#) [Eichengreen](#) [Rodrik](#))

There is obviously something wrong with a set of ideological beliefs that cannot anticipate reality, explain reality, or even see the real world as it actually is. Those who held these beliefs deregulated our financial system, facilitated the concentration of monopoly power into the hands of larger and larger too big to fail corporations, guided our trade policies into continuing trade deficits, failed to enforce laws against fraud and unfair labor practices, and imposed a regressive tax structure on the populace. It is the policies of free market ideologues that undermined the mass markets in our country and drove the world's financial system to the brink of destruction, and these same free

market ideologues are now blaming “entitlement programs” for the economic catastrophe their policies created, blocking the progressive tax increases needed to deal with our economic problems, and insisting on cutting Social Security benefits and other social insurance programs to solve our federal deficit problem their policies have created. These people actually live in that mythical world they have created in their own minds, and they dominate the body politic in our country today.⁴

If we are to understand the world in which we live, we must look at that world as it actually is, and not through the blinders of free market ideologues. When we do this we find it was the [New Deal](#) institutions of the [Roosevelt](#), [Truman](#), [Eisenhower](#), [Kennedy](#), [Johnson](#), and the first half of the [Nixon](#) administration that built the middle class in our country, and it is the success of the ideologically blinded conservatives in attacking these institutions since the Nixon administration that is destroying the middle class today. ([Amy Kuttner Klein Frank Harvey](#)) The destruction of our middle class cannot come to good, and the failure of our political leadership to insist that the government deal with this problem in a rational way does not bode well for the future.

There should be no doubt that the free market ideologues that have such extraordinary influence in our body politic today are doing everything within their power to destroy our government—to “drown it in a bathtub” in the metaphorical language of [Grover Norquist](#)—and, in so doing, are a threat civil order and, indeed, to society itself.

An efficient, well functioning government that provides for the common good and protects the rights of all people is an essential prerequisite for civil order in society. ([Amy](#)) When the government fails to provide for the common good or to protect the rights of all people and, instead, allows fraud and predation to run amuck, the growing inequities that accumulate as the rich get richer and the poor get desperate inevitably leads to violence—individual and mob violence on the part of those who are desperate or whose rights are abused for lack of state intervention, and state violence on the part

⁴ See [A Primer on Crisis Economics Part I: Origins of the Crash, Where Did All the Money Go?, On International Finance and Trade, The Simpson-Bowles Solution to the Deficit Problem, The Rise of Utopian Capitalism and the Crash of 2008, On International Finance and Trade, and It makes Sense if You Don't Think About It.](#)

of government to suppress those who strike out in desperation or rise up to protest their grievances.

This is the story told by the [Anti-Renter Movement](#) of 1839-1846, the [Molly Maguires](#) of the 1870s, the [Great Rail Strike](#) in 1877, the [Haymarket Riot](#) in 1886, the [Coeur d'Alene Strike](#) in 1892, the [Homestead Strike](#) in 1892, the [Western Federation of Miners](#) founded in 1893, the [Pullman Strike](#) in 1894, the [Leadville Strike](#) in 1896, the [Lattimer Massacre](#) in 1897, the [Unite Mine Workers of America](#) founded in 1900, the [Cripple Creek Strike](#) in 1904, the [International Workers of the World](#) founded in 1905, the [Pressed Steel Car strike](#) in 1909, the [Lawrence Massachusetts Strike](#) in 1912, the [Italian Hall Disaster](#) in 1913, the [Ludlow Massacre](#) in 1914, the [Everett Massacre](#) in 1916, the [Preparedness Day bombing](#) in 1916, the [Wall Street Bombings](#) in 1919 and 1920, the [Palmer Raids](#) in 1918 through 1921, the [Battle of Blair Mountain](#) in 1921, the [Ford Hunger March Massacre](#) in 1932, the [General Textile Strike](#) in 1934, the [Minneapolis Teamsters Strike](#) in 1934, the [Memorial Day Massacre](#) in 1937, and the [River Rouge Strike](#) in 1941. ([Boyer](#) [Zinn](#) [Haywood](#) [Jones](#)) This is all part of our history, and with the triumph of free market ideology over rational thought these past forty years we are well on our way to repeating it. ([Amy Klein](#) [Stiglitz](#) [Zinn](#))

Bibliography

