The God that Failed: When Selfishness is Legislated as Law of the Land

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Alan Greenspan, Federal Reserve Chairman from 1987-2006

History is written from the lives of good leaders with vision and principle, or bad leaders who led their people and countries to ruin and suffering because of their peculiar values, beliefs or ideas they felt were right and true. However, in following their ideal, something far different than they could have ever imagined or wanted came to be. When simply bad or false beliefs are carried to their logical ending, bad things follow. I will discuss the relationship between the ideology of Objectivism as defined by its creator, Ayn Rand, and the economic crash of 2008. I look closely at the steward of America's monetary and regulatory policies, the Federal Reserve (the "Fed"). To correctly comprehend the workings of the Fed during the last two decades in large measure is to understand the beliefs of its past chairman (1987-2006), Alan Greenspan.


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At 18, Greenspan first read Ayn Rand's The Fountainhead and was immediately hooked on her views of individual rights and their broader expression economically within laissez-faire capitalism. He saw this also as a moral argument against totalitarian communism. She called her views Objectivism, which championed selfishness, or as she put it, "rational self interest," as man's highest standard of morality.

The basic principles of Objectivism are that man is an end in himself, a rational being who must use his reasoning mind to survive and properly be the judge of his values. Those values will determine his purpose. He must work for his rational self interest in achieving his own happiness, the highest moral purpose in life. It is delivered best by laissez-faire capitalism which is an economic system that recognizes individual rights, including property rights and the right of the individual in using his freedom in pursuing his own interests to achieve happiness. Government's proper role is to protect the individual in those pursuits and minimally intrude upon those freedoms.

Later at 25, Greenspan began to attend Rand's evening gatherings. The connection was now complete and his acceptance of the ideals of Objectivism grew stronger.

The Federal Reserve System was established in December 1913 after various financial panics, notably the 1907 one that shook the country and made it clear that a better way to organize our financial house had to be found. The Fed's mandate is to control inflation, maintain price stability in the marketplace, create conditions for high employment, manage the economy and avoid the disruptive breakdowns that keep reappearing.

There are 12 Federal Reserve Banks within the U.S. The President appoints the seven members of the Federal Reserve Board and the Chairman which preside over the 12 Fed banks. These seven are permanent members of the 12-member Federal Open Market Committee. The President of New York's Federal Reserve Bank is the eighth and the other four are the presidents of other Federal Reserve Banks that attend on a rotating basis. The Chairman of the Board is the most powerful and influential position within the entire system. The Fed Chairman is the most powerful banker in the world.

When Greenspan became Fed Chairman in 1987, he gained fame for his skills in dealing with many of the world's severe economic problems. These were turbulent times that saw the savings and loan industry collapse in 1987 and the stock market crash in 1989. 1994 saw the collapse of the Mexican peso, major financial problems in Brazil and the Russian default crisis in 1996. The Asian financial crisis began in 1997. In 2000, the Internet bubble burst. As the financial collapse of 2008 approached, the giant hedge-fund, Long Term Capital Management went bankrupt. As other parts of the world suffered, America seemed an oasis of security because of the skill of this one man in guiding our economy.

A quiet, intelligent economist, Greenspan is at the center of controversy when looking at our troubled economy. For nearly two decades, under Republican and Democrat administrations, he skillfully managed our nation's economy and monetary policies. It was his persuasive leadership that determined the direction our economy would take. That policy had bipartisan support. A sense of prosperity, wealth, and economic well-being filled our country for most of his tenure, but in the end our economy nearly collapsed and underwent a recession not seen since the Great Depression. Today, our economy remains fragile and has only marginally improved with low public confidence that a lasting prosperity will return.

At the depth of the Depression in 1933, Congress enacted the Glass-Steagall Act. It was apparent that the banking sector of our economy departed from the traditional business of making money from collecting deposits and making loans at reasonable interest rates, to making very risky investment loans that in the beginning were very profitable but in the end collapsed. The Depression was preceded by the Roaring Twenties, a time of great excesses.

Glass-Steagall separated traditional commercial banking from investment banking and protected our nation from another Depression. It served us well for many years, but over time was compromised by the cooperation between politicians and financiers that found it a hindrance to making a profit. In 1999, the Financial Services Modernization Act that replaced Glass-Steagall, was signed into law. From that moment, the sub-prime mortgage business went into overdrive. There were now virtually no restraints on anyone in the financial sector. The rush for wealth was fast and loose. But these seemingly good times could not last and by late 2006 signs that all was not well, especially in the housing market, began appearing.

Greenspan's strong adherence to the philosophy of Ayn Rand in directing our national monetary policies was a key reason for our economic problems. He was the major contributor because of his insistence in the moral superiority of a market economy when free of government interference (regulation). He believed that government regulation was the enemy of freedom and maintained that "At the bottom of the endless pile of paper work which characterizes all regulation lies a gun."

This explains his adamant refusal to apply the regulatory strength of the Fed in dampening "the irrational exuberance" of the markets. Over the long course of his public service he shied away from implementing or enforcing regulations that in any meaningful way would impinge on the workings of the "free market." In the financial sector this proved disastrous. His strong convictions persuaded others on the Federal Reserve Board and Federal Open Market Committee to join him in allowing banking and investment firms free reign. Lots of easy money flowed during these times. Developers, builders, real estate people, and all the collateral businesses in the housing industry certainly did not want to see any change. When these people saw regulations coming they in turn pressured their representatives. This belief in “serving one’s rational self-interest” went from the ideology of one man to validating a way of life for an entire nation. We heard in essence “greed is good.”

In October 2008, when the economy went deep into recession, Greenspan was asked by the Congressional Oversight Committee what went wrong under his chairmanship of the Fed. His frank remarks were quite revealing: “I found a flaw in my model of how the world works and I am very distressed by that fact. I am shocked by how things turned out. I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were best capable of protecting their own shareholders and their equity in the firm. I was mistaken.” Ayn Rand’s philosophy turned out to be the God that failed.

Even now the fundamental flaws are being well-masked in our economic system. Nothing meaningfully has changed since 2008 when so many businesses could no longer hide their bottom line and failed in spectacular ways. The heart and mind of selfishness is a predatory condition whose first moral truth is to look out for myself first. Until a counter movement begins to make its voice heard, I believe a far greater breakdown is in store for all of us. This is not bad, just as a fever is not bad for a very sick person to regain his health.

Destructive individualistic selfishness is the threat that no legislation could eliminate. It didn’t stop at the Great Depression, or the Great Recession of 2007-09. It will always find a way to serve itself at the expense of others. It will thrive in any political-economic situation. Unfortunately, it was encouraged, rewarded and ignored by lack of regulation during our seemingly prosperous times.

Selfishness is an insidious disease of the spirit, with us for so long that we now think of it as normal. It is seen as a part of human nature. We accept it but hate it, unless of course it is I who benefits from my selfishness. Strangely, that is fine. Yet, we call selfishness an animal instinct. Animals are bound by their instincts, they do not have free will as we apply it to ourselves. Selfishness is a trait only of humankind. We do things knowing that the results will benefit us, usually to the disadvantage of another. Small doses of selfish acts are corrosive by themselves, but will not destroy. Yet when all restraints are gone and the greatest greed and ambitions for oneself are allowed to run rampant as they were in the great “get as rich as you can” times of the 1990s to 2006, the results speak for themselves.

No matter how we organize our political or economic systems, until this disease of human nature is cured, a world of lasting peace, opportunity and enough of the necessities of life for all, will not come. Where is the fire for justice and righteousness of those who marched for peace, equality and freedom in the ‘60s and early ‘70s?

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Photo of foreclosure sign (2008) by Jeff Turner