

**Concepts, paradigms, politics and pedagogy**  
**- the political-economic crisis of our age**  
by Paul C Sandison

Innovation will now be prioritised by the US administration at the National Summit:

<http://www.cnbc.com/id/15840232?video=1153573717&play=1>

One should however be aware that fiscal stimulation for innovation can happen immediately but the transformation of the US industrial structure cannot happen overnight. These will be projects for the medium and long-term. Nevertheless, the effects will be far deeper and more permanent than the transient stimulation of consumption through tax rebates, extra social security checks and other transfer payments.

Normally, the results of innovation projects masterminded by government and business take at least six months to get going and 3-5 years to reach full effect, if they are actually implemented. Many have been designed in the last 3 decades but shelved due to adverse political winds and the countries involved have suffered the consequences. I dealt with a catastrophic UK example of this in my last article in Investment Postcards on June 2.

We have arrived at the present global social and economic mess because the elite of the mature economies got into a lazy and arrogant mindset, born through a faulty and insufficient education and a lack of complying regulation. Since their economies are largely fully built, on the surface of things these economies do not momentarily *appear* to need the occasional government correction and co-ordination.

Thus through a lack of a real quality education the elites adopted an *ahistorical* approach to politics and economics and actually began to believe that great government involvement never happened in the history of capitalism. In my last article of June 2 I showed how government has worked in co-operation with capitalism since Europe first evolved out of the Middle Ages; beginning with the launch of the Dutch East India Company which was the first Company of modern capitalism. It was formed in 1602 and stock in the Company was first issued in 1606. This was before the US existed as a country and Chicago existed as a city and before Austria knew any capitalism.

Far too many of our present day political elite, CEOs and academics have constructed an ideology from the status quo, and then re-written history with their ideological blinkers on. Their ideology is based on a highly dangerous and mendacious dichotomy between politics and economics. They drop names like Joseph Schumpeter of the Austrian School but have not read him.

If they did they would be surprised to learn that (without advocating it) not only did Schumpeter believe that socialism would come, but he believed that socialism can work and that it can take a democratic form. Perhaps if Schumpeter lived today he would revise at least the inevitability of socialism and that it can work and take a democratic

form. But he died a long time ago, in 1950, and every man has only a certain time on this earth, and can do no more than from his origins and ability and within the time and milieu that he lives.

Schumpeter also recognised society and social classes, and that individuals were social beings. He also pitied those who insisted on seeing an extreme form of individualism as the ultimate model for the individual in capitalist society: 'We cannot help those who are unable to see that the individual is a *social* fact, the psychological an *objective* fact, who cannot give up toying with the empty contrasts of the individual *vs* social, the subjective *vs* the objective' (1927).

It is when the universities and colleges of the world disburse superficial sound-bite learning, that the rot really sets in. Within a generation it can destabilise what centuries of toil have built up. Very quickly, the beliefs of the elite and the status of the positions they hold affect decision makers throughout the world and a consensus develops, the present falsehood being that real capitalism only exists when there is complete non-intervention by government in the economy.

Over time however, the extreme and superficial ideas that the market can solve all problems, that the government should always stay out of influencing the structural transformation of the economy and leave the present state of de-regulation as it is, lead to poorer and poorer economic performance. The economic life of the system falls into a series of crises through the absence of correct political-economic intervention and control. Whereupon the elite do the opposite of what is necessary and raise their voices all the louder for any remaining vestige of regulation to be rescinded. For them, all ills become the fault of government intervention or regulation. Well now, regulation was relaxed almost to the point of non-existence over the last 3 decades, and the result has been foul.

It is rather like the crew on a sailing ship when a storm blows up. Unlike the captain, the crew believe that the ship must not be steered at all. They believe that only if this non-steering is achieved to the *nth* degree will the sea fall into harmony with the ship and steer it in the right direction. So instead of adjusting the sails and changing course, in true fundamentalist fashion they strip the captain of his duties and cast off the sails, rigging and rudder, believing that the waves and tides will ultimately bring the ship to paradise.

Similarly, the sad result of the abrogation of the political control of the economy is that entire populations fail to realise that as time goes on, new markets, new products, new trade, new technology create the need for new infrastructure, new industrial structures and new production that are too large or too much a change of direction for the markets to manage on their own. In other words, since massive risks are involved for business in such development, the transformation can only be achieved by the political and business co-ordination of these opportunities. Furthermore, for some new products, government must stand as guarantor for the capital borrowed, and in others as customer for these new products, in the beginning at least until a fledgling market is established.

Let us make no mistake. The mindset of the elite of the Western world is still in the grip of the Austrian-Chicago school whose doctrines have been hegemonous for 30 years. These rigid ideas are now firmly rooted in the minds of those who control most of the governments and businesses and business schools in the world.

A fresh example is when Steve Kaplan of the University of Chicago Business School says the call to teach MBA students how to be ethically fair to all the stakeholders in a business is 'fuzzy thinking' (CNBC interview 16 June 2009).

It is evident Kaplan has never read or understood Russell L Ackhoff's necessary principle of understanding and satisfying the needs of all the stakeholders, as laid out in his book 'Creating the Corporate Future'. Sadly, this book was published in 1981, almost 3 decades ago at the start of the raw yuppie era, and Ackoff taught at Wharton in Pennsylvania, not at the hegemonous Chicago School. See:

<http://www.cnbc.com/id/15840232?video=1154544882&play=1>

In similar fashion, the neo-cons of the modern Austrian-Chicago school will hate the new government 'interference' in innovation and the new products developed therefrom. However they will lose support from those entrepreneurs who get stuck in and produce the new products. The tables will gradually be turned.

*It is now the neo-cons and the Austrian-Chicago school who are the Luddites and who refuse to accept the adoption of new technologies and the building of a new content of society which markets have shown to be incapable of achieving on their own.*

Of course, the neo-cons will wring their hands and utter their mantras and dire threats and the Chief Ayatollah of the CNBC, Larry Kudlow, will scream every day. Notwithstanding the coming noise, I believe no one needs to worry about the neo-con fundamentalists for there is now a gigantic natural experiment going on.

The proof of the pudding will be in the eating. Those countries like China and Australia which have chosen the innovative counter-cyclical policy from the start will come out of this recession in much better shape than those who still believe in the tired, worn and and superficial mantras that the markets solve everything.

For me, if the US uses the innovation track to re-structure and re-direct the economy throughout, I can relax a little more, because I know that when those projects begin to take effect, even if it takes a couple of years, a real bottom will have been put under the US economy, and another bottom under the economy of the world alongside that of the economies of China and its trading partners.

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