

SECTION SIX

**WHY DO BRILLIANT PEOPLE BELIEVE NONSENSE?
BECAUSE THEY BOTCH HISTORY**

CHAPTER 18

THEY FAIL TO LEARN FROM HISTORY

"Those who cannot remember the past are condemned to repeat it."

— Santayana

They say you can learn a lot about people by the books they read. If so, those who peruse my personal library would likely conclude first of all that I've fallen hopelessly in love with reading. Second, they'd conclude that I'm especially addicted to history in the form of biographies and business stories.

Why?

Primarily because I'm very practical. While I certainly value learning from personal experience, I see its limitations—I can only experience so much. Thus, I much prefer learning from the vast personal experiences of others. Besides, floundering around trying out this and that results in tons of costly mistakes. I learn so much about successful relationships, my spiritual life, writing, teaching, business, and health by reading how others succeeded and failed.

Thus I read Anthony Bordain or Julia Child to learn from the lives of successful chefs, Eric Clapton and *The Beatles* to learn about perfecting skills and the price of success, Albert Einstein and Isaac Newton on lessons from science and scientists, Nelson Mandela and Martin Luther King Jr. and Mahatma Gandhi on how to impact people and society, Jack Welch and Warren Buffett on business and investing.

In this way, as I make personal and business decisions, I can make them not only in the context of my personal ethics and belief system, but also in the context of how hosts of others fared by making similar decisions. Because of my wide reading, I can ask myself, "If Jack Welch were running my business, what would he change? And how might Warren Buffett or Michael Dell or Steve Jobs put their personal spins on it?"

(I personally prefer reading over watching documentaries because I can cover so much more ground in less time, and can more easily make notes for future reference. Others may find good documentaries and select video presentations and personal interviews more useful.)

Let's take a personal life decision. Many people smoke cigarettes and seem to enjoy them. Should I start smoking? Well, I could either learn by my own experience (take up smoking and

discover over time if it was a good decision) or by learning from the personal experiences (histories) of others. I might ask, "Of people who've smoked for a couple of decades, what percentage are glad they started and highly recommend it to those they love?" If the percentage is quite low, I've just learned something valuable from history.

Naysayers

Admittedly, some smart people beg to differ, agreeing with Hegel's pessimistic assessment that the only thing we learn from history is that we can learn nothing from history.¹ But surely that's a huge overstatement that nobody can live with consistently.²

If you decide that smoking crystal meth is a bad idea, didn't you draw that conclusion, at least in part, from the overwhelming testimonies of meth addicts, demonstrating that those who start using meth have a terrible time giving it up, and that those who fail to stop ruin their most important relationships, their jobs, their life savings, and develop complexions ideal for casting in Zombie movies? If we admit that we learn such a valuable lesson from the lives of meth users, then we're admitting that we can learn from history.

Learning from History

Surely we'd be foolish to ignore the history of drug abuse and repeat that sad history in our own lives. As I tell my children,

"If you want to destroy your lives, at least find a new way of doing it. Don't destroy yourselves in same ways people have done it for thousands of years. A life spent repeating the known follies of the past isn't just tragic, it's embarrassing."

Smart People Who Failed to Learn from History

History is replete with tragic stories of bright people who failed to learn from her. Yet, today's bright people often continue to ignore it.

- **History tells us that risky sex (e.g., jumping from partner to partner) is emotionally and physically dangerous.** Thus, the influential intellectual Rousseau produced child after child, complicating his relationships and helping to fill the local hospital with orphans, who likely died there.³ Philosopher Bertrand Russell's pattern of chasing skirts caused terrible emotional anguish to his wives and children, not to mention himself.⁴ Famous Russian writer Tolstoy frequented brothels and acquired STDs that tormented him throughout his life.⁵ These weren't rare occurrences. In some areas of Europe in the 19th century, one out of every ten men had syphilis.⁶

Surely this would be an important historical lesson to learn; but amazingly, many people today prefer to learn from personal experience. Thus, in the UK in the first decade of the 21st century, we've seen syphilis surge by 1,000 percent. And it's not just risk-taking teens. One third of the cases are middle aged men.⁷

- **Here's a historically established formula for entrepreneurial failure:**⁸

- 1 - Start your business in a hurry
- 2 - In a field you know nothing about
- 3 - With borrowed money

Now read the rise and fall of the Enron corporation to see history repeat itself in one of the most tragic and costly business failures of all time. The leaders were undoubtedly brilliant people, but were too arrogant to consider some of the lessons of history. Thus, they made quick deals, purchasing companies in industries they knew little about, borrowing billions of dollars to bet on their future success.⁹

Why do brilliant people believe nonsense? Because they fail to learn from history.

How to Learn from History

1. Get a general overview.

Hopefully, a good formal education provided this for you. But we look at history through different eyes as adults. For this reason, although I'm well into my 50s and an "Instructor in Philosophy," I'm reading some shorter histories of philosophy (such as Will and Ariel Durant's popular *Story of Philosophy*) and plan to read a larger history of civilization and several books of lessons from history (such as the Durant's volume, *The Lessons of History*.)

Why the overview? It's easy to get so fascinated with the trees that we miss the forest. By getting the bigger picture first, or going back to remind ourselves of the larger context, it's easier to understand more specific histories in their context.

2. Read history with a critical eye.

We'll talk more about this in the next chapter. But suffice it to say that even the best historians must pick and choose from billions of historical events. Which are the most important to write about? They typically choose what they believe to be the most important or interesting events, which is naturally impacted by their personal interests, biases, and worldviews. So think as you read.

And before you purchase a book or documentary, do a bit of research. Before I read a book, I want to know up front if it's worth my investment of time and money. Do I have reason trust its research? Will I be able to quote from it with authority in the future? Some are so biased or poorly researched or so blended with fiction that they're worth little for those seeking real history.

Example: When films are "based upon real events," how do we know what's real and what's made up? Perhaps the "real events" in a television special on Elvis are that he became famous, gained weight and died in his bathroom. They get these three facts correct, but skew everything else for dramatic effect and justify it with "artistic license." To sift the truth from the Hollywood

spin in Spielberg's *Lincoln*, search Google for the Lincoln scholars who fact checked it.¹⁰

3. Read histories of people and topics that fascinate you.

Do you love cars? Read articles or books or watch documentaries on the history of those cars. I'm currently reading Masaaki Sato's history of Honda. By reading about something of interest to me, I not only glean business ideas on such topics such as breaking into an established industry, innovation, marketing, producing quality products, and taking chances versus risk management; I also learn much about Japanese history and culture.

Some who would be bored to tears with reading a history of the 1960s in America might learn and retain more of that history by reading a good history of their favorite '60s' bands or a biography of a key figure in the civil rights movement.

4. Prioritize the history that's most relevant to you.

If you're fascinated with wars, generals, presidents and changes in borders, you'll delight in works of general history. But if you're interested in succeeding in a vocation, pursuing a talent, learning wise money management, or improving your personal relationship skills, you'll likely find little help in a general history book. Instead, find specialist histories.

To better understand the impact of paradigms, I read histories of both the Big Bang Theory and the laws of thermodynamics. I wasn't just naturally drawn to these topics (point #3), but I felt I needed the background to write chapters eight and nine.

So you may not be naturally inclined to study economic history or the stories of people who managed their money wisely or poorly. But if you need help with your personal finances, such a study might help. Start with some authoritative articles (respected scholars in their fields, writing in respected publications.) If you need more, read a book like Burton Malkiel's *A Random Walk Down Wall Street*. Learning elements of the history of stocks and the history of successful businesses could save investors from much heartache and investing folly.

What do you imagine golf sensation Tiger Woods studied in college? Health? Sports therapy? Wrong. Those might have been more inherently interesting to him, but knowing how many successful sports figures either mismanage their finances or allow others to mismanage them, he studied economics at Stanford.

To learn more about personal finances, consider reading parts of an authoritative biography of Warren Buffett, such as Roger Lowenstein's *Buffett: The Making of An American Capitalist*, or Alice Schroeder's more recent *The Snowball*. While most people seem interested in how he invests his money to achieve such a high rate of return, very few people would seem to have the type of mind and personality to pull that one off.¹¹

But we *can* all benefit from learning how Buffett earned and saved and invested his money from elementary school through high school. Read that portion of his biography (skipping the rest, if it's not relevant to you) and you'll learn how he worked normal jobs that anyone could work

(paper routes, finding and selling golf balls, caddying, etc.), and invested it wisely so that by high school he was earning more than his teachers. Follow this up by reading Benjamin Franklin's *Autobiography* and you're well on your way to understanding personal finance.

If you aspire to be a writer, don't just study texts on how to write. Study writers to understand the great variety in their approaches to writing, marketing, managing the writing life, and navigating the business of writing. Madeleine L'Engle had a terrible time finding a publisher for *A Wrinkle in Time*. A chance encounter with a publisher at a social event, after she'd given up on it, allowed this classic to be published.¹² Novelist Fannie Flagg has difficulty mapping out her novels, so she stretches a clothes line down her hallway and attaches pages of the book to visualize the order of events.¹³

Reading a biography never fails to give me more and different wisdom than I was expecting. Example: I'm always amazed and intrigued by successful people's quirks. Read *The Idea Factory* on the history of Bell Labs and you'll find one of their most brilliant scientists riding up and down the company halls on his unicycle, while juggling. He'd hang up his phone on his colleagues mid-conversation for seemingly no reason. But he was far from the only one with quirks. How all these diverse personalities worked together to make many of the most important scientific discoveries of modern times gave me insights into management and understanding people. (As one author titled his book, *Everybody's Normal Till You Get to Know Them*.)

If you struggle with disabilities, read Paul Orfalea's autobiographical history of his successful print shop chain, Kinko's (later acquired by FedEx). Its subtitle says it all: *Lessons from a Hyperactive Dyslexic Who Turned a Bright Idea into One of America's Best Companies*.

Much wisdom lies waiting to be mined from the biographies of both successes and failures in fields relevant to your personal success.

5. Plan for, reflect upon, and value personal experiences.

A valuable part of your personal history is your experience. While I love learning from the experiences of others, there's often no substitute for personal experience.

Planning for Experience

If you're interested in running a restaurant, don't just study restaurant management, work at a restaurant! There's so much to learn from experienced waiters, chefs, prep chefs and managers that's difficult to pick up from a book. The more personal experience you accrue, the better you can draw upon your rich personal history.

Peter Han interviewed 100 extremely successful people in diverse fields to discover the secrets of their success. He found that many of them made vocational changes, in part, because of what they felt they could learn from the new job.¹⁴

Reflecting upon Experience

In an age of constant communication, with texting and Facebook constantly distracting us, it's easy to neglect the fine art of introspection.

So you hate your job. Ask yourself, in fine detail, what *exactly* you hate about it. Do you hate working with people in general, or just hate working with *those* people? Is the job too mundane, too challenging, or requires skills you lack? Does *anyone* love that kind of job, or is it just crappy all the way through? Do you love or hate direct contact with customers?

By thoroughly reflecting upon that recent history—what you love and hate about your present job—you prepare yourself to seek out increasingly fulfilling jobs in the future.

Valuing Experience

The leaders at Enron failed to value business experience. Instead, they tended to deprecate experience in their hiring, choosing top students soon after college, assuming they were smart enough to figure things out. The resulting lack of experience took its toll. They knew almost nothing about how to run their energy businesses, water businesses, and broadband business, and they failed miserably as a result.¹⁵

On Creative Thinking The Importance of Being There

Have you noticed that many people today can't seem to fully focus on what they're presently doing—their present experiences? One of my sons attended a concert where a musician challenged the audience: "For a moment, put down your iPhones and stop texting your friends about this experience. This concert will only happen once. Experience it!" Consider how trying to "be there" more fully can enrich your experiences and result in better ideas.

Keith Reid, lyricist for the '60s' band Procol Harum, was at a party and overheard someone say to a woman, "You've turned a whiter shade of pale." The phrase stuck with him and he used it to title their song, "A Whiter Shade of Pale," which reached number one in several countries and has aged so gracefully that as of 2009, "it was the most played song in the last 75 years in public places in the United Kingdom." It has been recorded by other bands at least 1,000 times.

But Reid would have never overheard or reflected on the conversation had his mind been elsewhere.¹⁶ This is why some educators speak of "the myth of multitasking." We think we can text on our phones and update Facebook while reading a text or listening to a lecture or attending a business meeting. But since we're "not all there," we fail to fully understand or to fully engage our higher level thinking.

Flex Your Neurons! Pursuing the Point of Know Return

1. Last week, at an auto dealership, I met a salesman from Morocco who was the top Nissan salesman in the country. I pulled him aside, introduced my 20-year-old son and said, "You've been incredibly successful in your field. Give us two minutes of advice. Why are you so successful?" He gave invaluable tips such as looking people in the eye and being totally honest with customers. Who could you interview to learn more about a topic that interests you?
2. At age 58, I help my 83-year-old mother care for my 109-year-old grandmother. Some would consider it a mundane task, but there's so much wisdom to be mined at granny's house! I regularly ask mom (granny's beyond sharing wisdom) for her advice and her recollections. These greatly inform me about how to more wisely live my life. Oh the wisdom we miss by texting friends during supper rather than engaging our parents and siblings in fascinating conversations! How could wisely worded questions help you to learn more from the experiences of your parents, relatives, and friends?
3. My boys have worked in the fields of graphics, restaurants, a pawn shop, auto and motorcycle mechanics, carpentry, building, and veterinary medicine. I love learning from them about their work, and they seem to love talking about it. How could you get your siblings and friends talking more about their lessons from life, so that you're learning from each other?
4. I've heard that people in Taiwan have for generations designated family historians to record family events of their generation. Thus, they can learn from generations past. Would keeping such a family history be of value to you? If you're interested, map out a plan to make it happen in your family.

Making It More Personal Practical Takeaways

What are one or more ideas provoked by this chapter that you can apply to help you think more critically?

What are one or more ideas that you can apply to help you think more creatively?

What else do you want to make sure you don't forget?

Recommended Trails For the Incurably Curious and Adventurous

1. Film versions of historical events often play fast and loose with history, in order to make them more entertaining. Take a movie based on real events and try to discover how closely it adhered to accurate history. You might search, for example "fact check Spielberg's Lincoln," or "Apollo 13 accuracy."
2. Do a web search for famous people (entertainers, athletes, etc.) who died broke. What can we learn from them?
3. Find documentaries or books on the histories of people/businesses that might be valuable for your career. Map out a plan to view/read them over time, to keep you inspired and growing in your field.



CHAPTER 19

THEY LEARN THE WRONG LESSONS FROM HISTORY

"Those who don't study history are doomed to repeat it. Yet those who do study history are doomed to stand by helplessly while everyone else repeats it."

— From a cartoon¹

A Fragile Life; A Fragile History

Superior Court judge Charles McCoy, Jr. watched the bailiff help Tucker make his way to the witness stand on crutches. When comfortable, Tucker recounted the event that permanently changed his life. Once a successful Los Angeles investment banker pulling in \$600,000 a year, he competed in marathons in his free time. But on that fateful afternoon, as he walked to lunch from his office, a steel beam broke loose as it was being moved by construction workers, striking Tucker on the head, then crushing a nearby car. The workers had failed to secure the beams with a safety harness.

Now, years later, the former picture of health endured excruciating pain when he simply raised his arm. Although he returned to work after six months of rehabilitation, he could no longer think clearly. As a result, he lost his job.

His doctors, including an expert on brain injury, testified that Tucker's injuries were irreversible, and that his only relief from constant, intense pain, would be powerful, addictive drugs.

Tucker's lawyer rested his case and judge McCoy had the weekend to contemplate the grim facts. The outcome seemed so certain that he began calculating a fair reward for damages—perhaps \$9 million?

But Monday morning judge McCoy arrived to find a large TV screen in his courtroom. A private investigator had been filming Tucker, starting a year after his accident. According to McCoy, the film showed Tucker

"stretching, bending, twisting, sprinting like a gazelle, running effortlessly for miles with an ease only champions achieve—all without the slightest hesitation or grimace, and all at night when Tucker assumed no one would see him."²

The last film was taken the very week he shared his testimony. Tucker promptly stomped out of

the courtroom, leaving his crutches behind.

Now imagine that the investigator had never uncovered the farce. Further imagine that someone had written a riches to rags biography, based on the testimonies of Tucker and his doctors. The author would have thought he was writing historical fact. The readers would have assumed they were reading historical fact. Perhaps only Tucker would have known the truth.

If it's this easy to be led astray with *recent* history, how much more should readers and writers of *distant* history question the accuracy of their sources?

Why do brilliant people believe nonsense? Because they believe ill-founded history, or accept ill-founded conclusions based upon history.

Verifying History

Fortunately, careful historians have ways to distinguish well-established history from questionable history. For example:

- If a historical claim depends upon extant (presently existing) manuscripts, how many manuscripts do we have, to what extent do they agree, and how far removed are they from the originals?
- If the historical claim depends upon people's reports, how many reports do we have and do we have reason to believe that the reporters were honest, accurate and unbiased? (Tucker's testimony demanded extra scrutiny since the case involved money. He had millions of dollars' worth of reasons to fabricate a clever tale.)
- Do archeological findings or known geographical facts confirm the reports?

Example: Abraham Lincoln's famous Gettysburg Address was delivered Thursday, November 19, 1863, in Gettysburg, Pennsylvania. The event was well established since many people were present to verify it and we see no motive for the reporters to lie.

But we're not so certain about the exact wording of the speech. Obviously, we don't have a recording. We have five extant versions of the speech in Lincoln's handwriting, two apparently written in preparation before the speech; but we know that speakers often veer widely from their notes. We also have the versions he wrote after the speech and the reports from newspaper reporters. Yet, they differ from one another in their exact wording. As a result, we can't say we know for certain every word that Lincoln spoke in his address. But by comparing the reports, we can approximate the exact words and feel confident that we've accurately captured his thoughts.³

Historians' Fallacies

In 1970, hordes of historians feverishly read the index to David Fischer's book, *Historians' Fallacies*, and breathed a sigh of relief to realize their works weren't criticized. Unfortunately, scores of respected historians found their names included.

There are many ways to botch history, or to draw ill-founded applications from well-founded history. Fischer detailed over 100 of them. Fortunately, many of these errors can be spotted by familiarizing ourselves with the fallacies and research methods we've discussed in earlier chapters, applying them to historians' works. Let's dissect a few that I often see in popular literature.

1. They draw from poor sources.

The Da Vinci Code: Fact or Fiction?

When Dan Brown's *The Da Vinci Code* hit bookstores in 2003, it quickly circled the globe as a worldwide bestseller, eventually selling over 80 million copies. The film adaptation appeared three years later, starring Tom Hanks.

As pure entertainment, it's a fast and furious read, tantalizing readers with mysterious puzzles, clues, action and compelling characters. But an additional feature added to the intrigue—Brown claimed that it was based on fact.

Now at first this would seem to be a confusion of genres, much like claiming that Bart Simpson and Charlie Brown are great actors. After all, it's fiction, a novel. But according to Brown, he took great pains to insure that the historical artifacts, documents, events, secret societies and rituals that he referred to were all factual. When asked on *The Today Show* about how much of his book was based on reality, Brown replied, "Absolutely all of it."⁴

Since this "factual base" contradicts more mainstream beliefs about Da Vinci, the Catholic Church, the life of Jesus and the early church, it naturally created quite a stir among reviewers.

Some early reviewers took Brown's claims at face value. *Publisher's Weekly* described *The Da Vinci Code* as "an exhaustively researched page-turner."⁵ A writer for the *New York Daily News* proclaimed "his research is impeccable."⁶

Fortunately for researchers, Brown listed his main sources on his website.⁷ Unfortunately for Brown, his list reads like a who's who of conspiracy theory books, known for playing fast and loose with history.⁸ In other words, no matter how many hours Brown spent in research, if he was diligently devouring unreliable sources, it was an exercise in futility. No amount of additional reading in such sources would have brought him closer to the truth.

In reading *The Da Vinci Code*, I was glad I'd recently read a well-researched biography of Leonardo.⁹ So when one of the characters, early in the story, claimed that Da Vinci¹⁰ accepted "hundreds of lucrative Vatican commissions," I knew that, far from hundreds, he'd accepted only one such commission.¹¹ (An error of this magnitude is what professional historians would likely deem "a whopper.") When I fact checked (with respected scholars and historians) Brown's claims concerning early church history, secret societies and claims about paintings and artifacts, one after another revealed that Brown's central "facts" were typically pure speculation.

The curator of European Decorative Arts at the Art Institute of Chicago concluded:

"...how much does this murder mystery have to do with the real Leonardo? The short answer is not much, and the author's grasp of the historical Leonardo is shaky."¹²

More thorough, book-long debunkings were written by 2004, showing in great detail the lack of historical basis. One authoritative critique of the historical claims took over 300 pages to unravel all the historical nonsense.¹³

In the end, *The Da Vinci Code* was just fiction after all. Yet it's amazing how many intelligent readers and reviewers accepted the author's claims, and perhaps even read some of his sources, convinced that they were onto something big, when in reality they'd done nothing more than naively fallen for revisionist history in the form of a conspiracy theory.

So it's not enough for an author to claim that he's done his research. Neither is it enough for an author to document his sources. Only respected, quality sources can build the foundation for a work that speaks with authority.

So when I choose a biography of an interesting person, or a history of a fascinating business, I first discover whether or not it's written by someone who did first-class research or experienced the events first hand and had no reason to skew the facts. Reading a variety of reviewers can often help in narrowing down the best resources.

2. They assume that they can accurately attribute later events to earlier events.

Well if it isn't our old friend *post hoc ergo propter hoc* ("after this, therefore because of this")! Yes, our logical fallacies come in handy as we try to sift history's facts from nonsense.

What Killed Off So Many Europeans?

Often the connections we make from event to event are well founded. Example: Why did 30 to 60 percent of Europeans suddenly die in the mid-14th century? Well, we're on solid historical ground to blame the "Black Death." The connection is well documented. But when we ask where the Black Death came from, things get more tentative. It *likely* originated in Central Asia, was *perhaps* carried by travelers along the Silk Road, *possibly* spread to Europe by fleas on rats traveling to Europe on cargo ships.¹⁴

But we can't know its origin for certain. We can't send a physician back in time to examine the travelers, dissect the fleas and interview the rats. Thus good historians take care to distinguish solid historical connections from probabilities and pure speculation.

Who or What Caused America's Great Recession?

Think!

In a paragraph or two, sum up what you've heard about the causes of the recent Great Recession (beginning in 2007-2008).

Our brains naturally look for and prefer simple answers, especially if they involve blaming a rival political party. Ask Republicans (or a Republican sponsored commission) and they'll tend to emphasize factors other than those caused by their party. Ask Democrats (or a Democratic sponsored commission) and they'll likely emphasize Republicans' failures. Look no further than the results of the Federally sponsored *Financial Crisis Inquiry Commission*. After interviews with over 700 witnesses, the six Democrats and four Republicans remained divided along party lines as to which factors contributed to or were most important in precipitating the crisis.¹⁵

But regardless of party affiliation, we tend to develop simplistic mental narratives to explain the recession.¹⁶ Thus, for a time, many proclaimed that Bush's tax cuts caused the recession.¹⁷

But surely it's too simple to blame the policies or failures of any one president or party. After all, the recession wasn't an exclusively American event—it was global. Various commissions have studied the crisis and compiled long lists of contributing factors, which must somehow be weighed to determine which factors contributed most heavily.¹⁸

Since the crisis erupted toward the end of George Bush's presidency, it's tempting to place the blame exclusively on him and his party for the crisis. When we see an effect, we naturally look to the closest historical events to assign causes. But looking at the deeper analyses of economists and commissions shows a more complex picture of contributing factors.

- The housing bubble burst, causing large-scale defaults on subprime mortgages, leading to a banking crisis.¹⁹
- An unprecedented jump in oil prices clobbered the US auto industry, reverberating through the rest of the economy.²⁰
- Americans had borrowed way beyond way their means, then had to curtail spending after the housing bubble burst, which hindered economic recovery.²¹
- Many people unwisely bought houses they couldn't afford, often with risky mortgages that could increase their future payments beyond their means to pay.
- Many blame Fed chairman Ben Bernanke's policies.²²
- Bernanke blamed it on lack of regulation and oversight.²³
- The government placed quotas on the loan organizations Freddie Mac and Fannie Mae, which led them to make home loans to people who likely couldn't afford them.
- Many blame former Fed chairman Alan Greenspan for policies such as spurring on the real estate bubble by keeping interest rates low.²⁴
- Insufficient regulatory laws, as a result of deregulation, allowed excesses.²⁵
- Insufficient enforcement of existing laws allowed banks to hide their risky investments.²⁶

- The creation of risky, exotic investment schemes by Wall Street and banks, allowed for dangerous speculation.
- Choosing to shield these exotic investment instruments from regulation made them even riskier.²⁷
- Banks hid their true financial state (excessive leverage) behind "off balance sheet entities."
- Government policies designed to help the financially disadvantaged to escape a lifetime of renting, and to experience the advantages of home ownership, lowered lending standards.
- Lenders adopted questionable practices.
- Incompetent rating of mortgage backed securities by trusted rating agencies led investors to think their investments were relatively safe.
- Large-scale investing in real estate by individuals and institutions drove housing prices ever higher.
- Brilliant economists' mathematical formulas assured rating agencies, investors and policy makers that investing in subprime real estate wasn't that risky.²⁸

Making Sense of Contributing Factors with Narratives

In order to try to understand and weigh the importance of each of these factors, economic theorists (and the rest of us) develop "narratives"—stories of how these various factors worked together to cause the crisis. Many narratives have been forwarded to try to make sense of this recession. Here's mine, based on my admittedly limited knowledge of the field:

Respected economists published papers suggesting that deregulating the banking industry would make it more competitive and in the end benefit consumers. Mathematical theorists published papers showing that bundling together thousands of loans would reduce the risk of subprime loans, thus allowing banks to make loans to people with less financial stability.

Those in power (Fed chairman, Congress, presidents, etc.) believed these studies to be credible and saw an opportunity to allow those with smaller incomes to escape the rental trap and experience the benefits of home ownership. Thus, they set quotas for the organizations Fannie Mae and Freddie Mac to grant a large percentage of their loans to low income people. In order to achieve these quotas, these organizations had to lower their standards of lending.

Individual and institutional investors in mutual funds poured more and more money into Real Estate Investment Trusts, since these were getting stellar returns in comparison with other mutual funds and investments, causing real estate investments to increase in value far beyond other investments.

Wall Street developed creative investments, such as derivatives, which enabled investors to try their hand at making money on these bundled loans. The government decided to not regulate the derivatives.

The combination of low interest rates (to spur economic recovery from the bursting of the tech bubble) and easy credit helped to fuel a real estate bubble. The banks which invested most heavily in real estate made tons of money, so that they could afford to offer such features as free checking and capture the market share, so that other banks had to join in the real estate frenzy to remain competitive. Some sleazy banks found loopholes in regulations, allowing them to invest more money by hiding how much money they were risking in investments.

Builders got rich building new, expensive neighborhoods, assuming that easy credit and increasing home values would last forever. So they built newer and bigger houses, speculating that people would buy them.

When Dick and Jane saw their friends at work and their apartment neighbors buying nice houses, they wanted a nice house. People with nice houses wanted nicer houses, and banks were happy to lend them money. Dick and Jane failed to notice that they no longer had the safety cushion of former generations who practiced such dull habits as putting away 10 percent of their income into savings. By the 2000s, people were merrily running up credit cards and taking out loans, spending more than they made, seemingly oblivious to the dangers of debt.

Those who were responsible for regulating Wall Street and the banks were apparently too busy to do their regulating stuff. After all, they had fancy dinners and schmoozing events to attend, sponsored by lobbyists for various good causes such as Wall Street investing firms and big banks.

Eventually, the real estate bubble burst, initiated by such factors as people defaulting on their loans, investors getting spooked and pulling out, banks tightening their lending, and people losing jobs.

This is just one of many possible narratives, all of which try to identify the primary causes and connect in a meaningful way the factors that most likely contributed to the Great Recession. So which were the most important factors?

So Who's to Blame?

In some circles, it's fashionable to place the entire blame on the Bush administration. Surely they should shoulder some of the blame, since it happened on their watch, but how much? While our minds love simple solutions, in the end it's not so simple. After all, the *Financial Crisis Inquiry Commission*, with a majority of Democrats, noted that the Clinton administration's decision to shield exotic real estate investment instruments such as derivatives from regulation was a major factor.²⁹

Warren Buffett places much of the blame on the economists and mathematicians that government leaders were listening to. Buffett suggests the following lesson from the crisis:

"Constructed by a nerdy-sounding priesthood using esoteric terms such as beta, gamma, sigma and the like, these models tend to look impressive. Too often, though, investors forget to examine the assumptions behind the symbols. Our advice: Beware of geeks bearing formulas."³⁰

A writer for *Newsweek*, exploring causes of the economic crash, concluded with a wise caution about too quickly assigning simplistic causes to this historical event:

Historians are still debating what caused the Great Depression, so it's not likely this argument will be settled any time soon.³¹

So when respected writers or teachers declare with finality that "Obama wrecked our economy," or "the Reagan administration started this mess," or "greedy bankers caused this recession," don't accept their blanket judgment before asking yourself, "Did they present adequate evidence to connect causes with effects? What about all the other historical factors? Isn't this issue currently dividing even our greatest economic thinkers?"

3. They cherry pick data.

Some writers may get their facts straight, but present only the historical data that supports their views, ignoring the rest. As historians Will and Ariel Durant observed,

"History is so indifferently rich that a case for almost any conclusion from it can be made by a selection of instances."³²

Take the writings of Karl Marx and Friedrich Engels.

Through their writings, it could be argued that they impacted the political landscape of the world more significantly than any two people in modern times. Just look at their imprint on the Communist States in the 1900s, including the huge portions of the world represented by the former Soviet Union and China.

In their writings they argued that capitalism was a flawed system which inevitably leads, over time, to capitalists increasingly exploiting the workers. The legitimate way to examine the evidence for this thesis would be to first try to collect sufficient data on the positive and negative impact of capitalism on workers and discover if it has consistently worsened the quality of life for workers over time.

Yet, when scholars have examined Marx and Engle's works, they find them cherry picking events that make capitalism look bad, rather than allowing history to speak for itself.³³

For example, Marx dug up stories of abuses of workers by factory owners and used them to enrage his readers over the exploitation. Yet his main sources in numerous cases were the reports by government inspectors who were charged with detecting and prosecuting those

exploiters. In other words, had Marx revealed his sources, and had his readers understood them in context, they would have seen many of his examples as proof that the capitalist government was *helping* the workers by responsibly correcting many of the abuses Marx was complaining about!³⁴

Yet such collections of stories wield great power. We remember stories. We identify with them. They engage our emotions. And if we're not careful, we'll believe their conclusions without realizing that we've heard only one side of the story—the side the authors wanted us to hear. In the case of Marx and Engels, their cherry picked stories changed the world. Only an objective study of the positive and negative impact of Marxism can tell us whether they made the world better or worse.

So as you read articles and listen to the news, ask yourself, "Am I hearing an objective report of evidence for both sides, or is the author/broadcaster just cherry picking stories that support his bias?" If articles are promoting a new diet, are they cherry-picking stories of people who successfully lost weight without including stories of people who didn't? If so, you're reading an advertisement, not a serious presentation of the facts.

4. They're enamored with recent history.

Clothing Styles and Recency

Have you ever looked at your parents' yearbooks and laughed out loud at their ridiculous hair styles and clothes? If so, did you stop to think that, to your parents, during their teen years, those ridiculous styles seemed cool? And have you further considered that your own children might one day open *your* yearbook and laugh hysterically at *your* generation's outrageous styles?

My point? Fads seem smart and natural in their time, but can't be fully assessed until we see them in the rear-view mirror.

Intellectual History and Recency

Is it any different with intellectual fads? We find difficulty assessing the supposedly great ideas of our own times, because we absorb them almost without question, just like we absorb current hair styles and clothing trends. We can't imagine that great thinkers of the next generation may look back at many of our generation's "great" ideas with hysterical amusement and wonder.

In 1986, Professor Allan Bloom noted in his thought-provoking book, *The Closing of the American Mind*, that when his students arrived at the University of Chicago, virtually none of them believed in absolute right and wrong. Now certainly many informed, bright people don't believe in moral absolutes, but his point was that these elite students, smart enough to make it into such an elite school, had adopted their position, not by wrestling with the reasoning of history's great thinkers, but apparently by a process more akin to osmosis. In other words, students read popular literature that assumed relativism and their teachers likely preached relativism. The students passively adopted relativism without thinking it through for themselves.

It never seemed to bother them that to be consistent they couldn't say that Hitler was absolutely wrong to kill millions of innocent people.

But such a view dominated the intellectual world in the early and mid-1900's as part of the larger intellectual movement called Modernism.³⁵

Modernism, Postmodernism and...What Next?

At each shift in intellectual history, we imagine ourselves standing on the pinnacle of human thought, looking down with a smirk at the ignorant generations past. As evidence for this chronological snobbery, let's reflect upon the naming of modernism. After all, "modern" means "of the present and recent times, not antiquated." So by naming the movement modernism, influential intellects presumably thought that this was the last great intellectual movement that would endure through the rest of human history. "We've reached the pinnacle of human thought," they likely assumed. "Now we're modernists."

But lo and behold many thinkers moved beyond modernist thought, posing a problem in naming the avant-garde manner of thought. So what could the "Committee on Naming Intellectual Movements" call a period following modernism? "Futurism?" No, that wouldn't do, because we're naming what people think *now*, not in the future.

So they began calling it "postmodernism," which of course appears to be a contradiction in terms. How can we possibly live in times that are "beyond modern," if "modern" is by definition "current?" In its favor, the name "postmodern" at least allows us to continue to bask in the arrogance that assumes we're now a part of the last great intellectual movement.

But the current members of the venerable naming committee must by now realize that previous members have painted them into a grammatically induced no win corner. They almost certainly spend their meetings nervously pondering what to call the next intellectual period. "Post-Post Modernism"? Well, that name would saddle the next generation's committee with Post-Post-Postmodernism. I feel for them.

And there are indeed signs that we're moving past postmodernism, a movement which tended to despair of searching for truth, while relishing experience. Today we find influential intellectuals such as Harvard's Michael Sandal arguing that we can indeed find truth, even in morals. His book *Justice: What's the Right Thing to Do?* is wildly popular, widely taught in American universities. (So this guy has the audacity to speak of both "right" and "wrong"? Both Modernists and Postmodernists must be horrified.) He's treated like a rock star when he speaks in Japan or China. If Sandal and those who teach similar ideas end up dominating this intellectual era, I don't envy the job of our current naming committee.³⁶

Thus it would seem that our assumption that we live at the pinnacle of intellectual history is ill founded. So don't fall into the trap of believing that the current intellectual fads, any more than our current hair styles, will last indefinitely. More likely, future generations of professors will discuss them with a hearty laugh or a sneer.

My take away? Don't soak up the intellectual fad *du jour* by osmosis. Think for yourself.

The Psychology of Recency

Psychologists have noted the power of "recency"—"the tendency to estimate probabilities not on the basis of long-term experience but rather on a handful of the latest outcomes." This makes sense of the phenomenon of people losing money in the stock market by chasing stocks that are moving up. Typically, they see a stock moving up (recent history) and assume this trend will continue. Yet, they fail to look at the long term history of the stock (and the market in general), which may show that the stock goes up and down at intervals that hardly anyone could predict.³⁷

The Impact of Recency

- Surely Karl Marx's conviction of the evils of capitalism was influenced by his own personal history. He was fairly hopeless at managing his money and was often borrowing from lenders and paying off his debts. Since the borrower often finds himself a slave to the lender,³⁸ he hated those capitalists who hounded him for payment of his debts.³⁹
- I have a friend who laments that his business decisions often failed because he consistently bought into "the going thing"—those businesses that were heralded as the smart, blowing and going businesses of the time. Thus, he ended up pouring his time and money into industries at their peak and failed to cash in on the returns that early adopters had seen.
- Enron made tons of money off the deregulation of the natural gas industry (their recent history) and assumed that the same business model would produce similar results in other fields such as electricity, water and high speed Internet. The latter investments left them billions of dollars in debt.⁴⁰
- We've already discussed how recency impacts economic bubbles, causing smart people to invest in the stocks that have been on the rise and are already wildly overvalued. But our brains love those patterns and find difficulty imagining that their profits are the results of a bubble rather than our brilliant knack for investing. As Buffett warns us: "Nobody knows who's been swimming naked until the tide goes out."
- When a busted economic bubble influences us from our recent history, we often make poor decisions as a result. One influential *New York Times* article warned people not to invest in Google's 2004 initial public offering, in part because they compared it to the tech bubble of 1990's. Investors who heeded their warning missed one of the best investments of our time.⁴¹

According to John Maynard Keynes,

"...the idea of the future being different from the present [and our recent history] is so

repugnant to our conventional modes of thought and behavior that we, most of us, offer a great resistance to acting on it in practice."

Therefore, overcome your bias for recent history by comparing it to more distant history, to the histories of other cultures, and by thinking through the line of reasoning that people use to establish cause and effect.

Conclusion

Why do brilliant people believe nonsense? Because they believe ill-founded history or draw invalid applications.

Flex Your Neurons!

Pursuing the Point of Know Return

1. What personal experiences have impacted your beliefs and the course of your life that might need to be examined from a broader perspective?
2. What are some theories or popular ways of thinking that you suspect may be based more upon recency than upon the objective weighing of evidence?
3. Before you read this chapter, what did you believe (or hear) were the main causes of "The Great Recession?" Did this chapter broaden your perspective? In what way?
4. Run imaginary, alternative histories to test the cause-effect relationship. Imagine that the Fed didn't keep the interest rates low after the tech bubble burst, and as a result, we never fully recovered from the busting of the Tech bubble. Would our present economy be better or worse? Let's imagine that taxes were *increased* on large corporations instead of lowered under Bush. Would things be better today, or worse? Might some major corporations have moved to another country to avoid taxation? Might such policies have hindered the rapid rise of Amazon, Google and Apple, which have provided so many jobs?

Making It More Personal Practical Takeaways

What are one or more ideas provoked by this chapter that you can apply to help you think more critically?

What are one or more ideas that you can apply to help you think more creatively?

What else do you want to make sure you don't forget?

Recommended Trails For the Incurably Curious and Adventurous

1. In this chapter, I selected a few ways that people botch history. To learn many, many more, read *Historians' Fallacies: Toward a Logic of Historical Thought*, by David Hackett Fischer (New York: Harper & Row Publishers, 1970). Fischer discusses over 100 fallacies that historians are apt to fall for, and shows a seemingly endless number of instances where respected historians did just that. Read it thoughtfully and you'll read history with a more discerning eye.



2. Some people act as if scientific evidence can answer all our questions. Yet, evidence from science typically involves observations of phenomena and experiments that can be repeated. The past can neither be directly observed nor experimented with in a laboratory. Thus, in our courts of law, while we may use an occasional DNA test or have a testimony from a scientist, we typically use *legal* evidence, which often overlaps with *historical* evidence. To understand the differences in the types of evidence used in various fields, begin by searching terms such as "legal evidence," "scientific evidence," and "historical evidence."