

An Open Letter to John Galt

John Galt is the fictional protagonist in Ayn Rand's 1957 classic Atlas Shrugged. Rand, who escaped with her family from the Soviet Union as a young adolescent, sketches out libertarian views through her work. In her novels strong, creative, and heroic individuals resist statist and collectivist forces. Galt organizes a strike by these people in response to the dystopian socialist America Rand paints. Galt and the other "Atlases" withdraw from society and build their own free-market utopia (which is never detailed).

As the US government increased its role in the economy in recent months, and especially as officials began trying to cap compensation schemes from those institutions receiving large sums of tax payer money, Atlas Shrugged has seen new interest. On March 25th, a little more than a half a century after it was first published, the book rose to 17th place in Amazon sales, surpassing most books including President Obama's Audacity of Hope. There is much talk in the blogosphere of a new Galt strike. Rand fan and California Congressman Campbell recently warned: "The achievers, the people who create all the things that benefit the rest of us, are going on strike. I'm seeing, at a small level, a kind of protest from people who create jobs, the people who create wealth, who are pulling back from their ambitions because they see how they'll be punished for them."

Dear John,

I wish I were writing to you under better circumstances. As you know, the world economy is experiencing the first contraction since before Atlas Shrugged was written. The particular causes are not agreed upon or fully understood, but a former, and perhaps the most famous student of Rand's, who she used to affectionately call "the Undertaker" and also contributed three essays to her 1966 book Capitalism: The Unknown Ideal, admitted to an ideological deficiency that contributed to the crisis.

Specifically, as the crisis deepened in October 2008, former Federal Reserve Chairman Alan Greenspan acknowledged his libertarian bias against regulation was "flawed" as it assumed financial institutions would, without the compulsion of the government, protect shareholder value and investments. Surely this represents a stunning reversal. Consider what Greenspan said in 2005 that captures the essence of the libertarian thinking: "private regulation generally has proved far better at constraining excess risk-taking than government regulation."

When Greenspan was sworn in as the Chairman of the Council of Economic Advisors in 1974, Rand stood by his side. However, it is true that over the course of time, Greenspan seemed to distance himself from Rand. For example, in his essays with her, Greenspan appeared to be skeptical of central banks and an advocate of the gold standard. As the head of the Federal Reserve, of course, Greenspan found it difficult to operationalize such views. While Greenspan's star has dimmed, his volte-face should give you pause.

The major protagonists in Rand's fiction, such as yourself John, were idealized characters, like Nietzsche's *superman*. Your creator gave you perfect knowledge and rationality, but real people do not seem so blessed. In fact, this is a significant difference between your and Rand's views and those of the Austrian and Chicago free-market schools.

They understand that our knowledge, our information set, is fundamentally incomplete. And as Greenspan said, "We have to do our best but not expect infallibility or omniscience." The significance of the market is not really for perfect people like you, but rather for coordinating and aggregating the limited knowledge that we, actual people, possess. Moreover, the insights from political science, psychology and behavioral finance suggest that rationality, like knowledge itself, is bounded.

Rand praises the "virtue of selfishness", but many of the latter-day Galt wannabes see this as a justification for narcissism and self-aggrandizement; a clash not of civilizations but of self-interest. Rand, who maintained that "the rational interests of men do not clash—that there is no conflict of interests among men who do not desire the unearned, who do not make sacrifices nor accept them", would be rolling over in her grave if she knew that her work was being so distorted.

Yet there is something about the extreme individualism that Rand espouses, dare one say, unnatural. You and your small band of demigod cohorts could exist, if such a word has meaning to a figment of a well developed imagination, strictly on your own. But real people cannot and do not.

Oh guys like Ralph Emerson could go be by himself on Walden Pond, but he was already an adult, having grown up in society. He spoke and could write. Those skills can only come from living with others. People exist more like ants, bees, and other social animals, than like domesticated cats or dogs who appear able to live without others of their species. When Cain asks, "Am I my brother's keeper?" the answer the resounds through human history is yes, unwaveringly yes.

There is also an elitism, which you embody, in Rand's work that prevents a richer understanding of the current financial crisis. Value is not simply created by the best and the brightest. Value is created by the butcher, the baker and the candlestick maker. It is created by school teachers, garbage men, nurses, social workers, taxi drivers and janitors.

The people who currently want to strike in your name are not these people. Many of the people who fancy themselves modern day Galts are not profit-seeking entrepreneurs, but rent-seekers who have benefited from the manipulation of the rules. They did not create wealth or shareholder value. They destroyed it in historic proportions. They did not take risk. They gambled with other people's money and lost big.

They are reluctant to accept the consequences of their actions and this is antithetical Rand's ideal. Nothing is being taken from them, quite the opposite. Their businesses, which are integral to the modern economy, are on the dole. It is helping preserve their jobs and many others. And they are chafing under the conditions that are being attached to access to the public watering hole.

They do not want to accept responsibility for what they have done. Instead they want to blame sub-prime borrowers for the mess. Sub-prime mortgages accounted for about 10% of the \$14 trillion mortgage market. Yes there was some deception on the part of some borrowers, but it was marginal at most. The vast majority of sub-prime borrowers continue to service their obligations. The tens of trillions of dollars that has been lost cannot rightfully be placed at their feet. The vast majority of these loans have not failed.

Wall Street executives and their relatively small number of senior decision makers are not the victims they are claiming to be. For every one of them there are hundreds, if not thousands, of employees in these firms that do not receive the compensation or perks commonly associated with banking and insurance firms.

The financial crisis is not the result of sub-prime borrowers. Their losses are absorbable in an economy of America's size. The real culprit was leverage. Many large financial institutions took on leverage in such proportions that the smallest set back wiped them out.

One last thing: don't confuse the criticism of Rand with a left-wing rant. Just as Rand had a problem with many American conservatives, including Richard Nixon and Ronald Reagan, many conservatives also reject Rand. Not only did her virulent atheism alienate some conservatives, but her entire body of her work was often rejected by them. Consider the late William F. Buckley, the founder of the conservative National Review wrote: "Ayn Rand is dead. So, incidentally, is the philosophy she sought to launch dead; it fact it was still born."

So John, if some rent-seeking, paper-shuffling, value-destroying people try to join you in Galt's Gulch, know that they are not on strike, but have been fired for gross incompetence.

Marc Chandler

Global Head of Currency Strategy