



Mobs, Messiahs, and Markets

Surviving the Public Spectacle in Finance and Politics

by William Bonner and Lila Rajiva
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Take-Aways

- People consider themselves to be rational and logical beings.
- Nothing could be further from the truth: Human behavior is driven not by cold facts but by squishy emotions.
- The need to reproduce guides human decisions. When you buy a Hummer or build a McMansion, you're advertising your desirability as a mate.
- Human illogic becomes apparent in the leaders people select. From Alexander the Great to George W. Bush, leaders generally want to change the world.
- This world-improver impulse always fails.
- The human brain isn't sophisticated enough to analyze all the information it needs, so people simplify and generalize.
- Crowd behavior inflates financial bubbles; people believe what others believe.
- In a bubble, humans don't study the facts.
- Instead, people cram the facts into whatever theory is fashionable.
- Wars are the ultimate proof of human folly. Rarely necessary, wars are fought unquestioningly by those with the most to lose.

Rating (10 is best)

Overall	Applicability	Innovation	Style
9	6	9	9

Relevance

What You Will Learn

In this Abstract, you will learn: 1) Why humans aren't really rational; 2) Why world improvers like George W. Bush and Che Guevara are fools; and 3) Why war is nearly always a bad bet.

Recommendation

With scimitar-sharp wit, withering one-liners and sledgehammer-subtle analysis, William Bonner and Lila Rajiva embark on an amusing and fascinating study of human nature. Along the way, they skewer just about everyone – Republicans, Democrats, fascists, communists, CEOs, hedge-fund managers, journalists and patriots all line up for a good tongue-lashing from the authors. Funny, irreverent and thought-provoking, this treatise is a joy to read, even if you don't agree with all of Bonner's and Rajiva's conclusions. (And who could?) Human nature itself is the true villain in this sweeping work. Enjoyable as it is, this study tackles too much and at times turns into little more than a rant, albeit a readable and persuasive one. Even so, *getAbstract* recommends it to anyone who hopes to understand human behavior in business and politics.

Abstract

World-Changers Gone Wrong

What do Adolf Hitler, Benito Mussolini, Osama bin Laden, George W. Bush and Alexander the Great have in common? Not much, at first blush. But on closer inspection, they do share something. All are first-rate world improvers. They belong to a class of "do-gooders gone bad" who believe they know what's best for everyone else, and that they can impose their will on the rest of the world – whether the rest of the world likes it or not.

The atrocities of Hitler, Mussolini and bin Laden are well-documented. George W.'s do-gooder tendencies were exposed by his foolhardy decisions to invade Afghanistan and Iraq in an attempt to turn ancient civilizations into Middle Eastern versions of the United States. Bush followed in the footsteps of Alexander the Great, another world improver who conquered the Middle East only to find he couldn't permanently bend the world to his will.

George W. Bush is not the only one who's narcissistic enough to believe that he can miraculously morph Mesopotamia into a democracy. Tony Blair is his accomplice, as are the American people who suddenly have made it their mission to fix the rest of the world. No longer do Americans revere English literature, Gallic style, Teutonic organization or Japanese industry. Instead, Americans revere only themselves.

What's more, Americans have shown themselves susceptible to manipulation by scare tactics. The sensible response to the Sept. 11 terror attacks would have been to ignore them. What's the risk that the typical American will be the victim of a terror attack? About the same as the odds of drowning in a bathtub or being carried away by a tsunami. So how did Americans respond? With hysteria and a misguided war in Iraq that has accomplished little more than breeding anti-American sentiment.

"The truth is – popular politics and bubbles are almost always frauds that flatter our sense of vanity."

"There it is, dear reader. When it comes down to it, it's all sex and lies. Everything: Romance. Cars. Jobs. The debt bubble. The real estate bubble. The trade deficit bubble. The American Empire."

“What we are saying is that man is an imposter. He is not the naïve scientist he passes for. Instead, he is a slobbering sentimentalist.”

“Study after study has shown people to be stupid, insipid, unfaithful, unreliable, illogical, selfish, unfathomable, mean, absurd and often insane.”

“It is not news that sells papers, but papers that sell news.”

“Storyboarding does to the news what waterboarding does to prisoners – it persuades it to say what you want to hear.”

The missteps of the do-gooders flow from a principle flaw in human nature. People think of themselves as logical, analytical beings who respond to crises with coolheaded intellect. Humans think they react rationally based on careful cost-benefit analyses. Nothing could be further from the truth. Whether people are responding to the threat of terrorism or deciding how much to invest in dot-com stocks or residential real estate, they’re almost always behaving viscerally, unthinkingly and emotionally.

In nearly every case, the primal urge to be more appealing to the opposite sex drives human decisions. A man drives a Hummer and lives in a McMansion to prove to women that he’s a worthy mate. This brand of emotional decision making holds true in a variety of endeavors. Investors would like the CEOs of the companies they own stock in to be tall and self-confident; competence doesn’t seem to be as important.

After all, humans – whether they are men and women looking for mates or investors seeking places to stash their retirement savings – place a higher value on confidently expressed views than on actual knowledge or integrity. Otherwise, why on earth would anyone pay \$135 million for a painting by Gustav Klimt or \$140 million for a Jackson Pollock?

The Triumph of Biology over Logic

The answer lies in our biology. Human behavior is dictated by preprogrammed survival strategies, all of which come into clear focus when you realize that the primary goal men and women share as *homo sapiens* is to pass their families’ gene pools on to the next generations. This self-propagation motive drives even seemingly altruistic acts. Consider the man who selflessly flings himself out of a lifeboat so that a woman or child might have his spot. His sacrifice might seem pure, but what if the man decided to let the woman or child die instead? He’d be a coward, and what woman wants a coward for a mate? The bottom line: Human decisions are all about sex.

The brain’s limitations make more sense when you consider that it stopped evolving millennia ago, yet the world it must deal with grows ever more complex. Humans can juggle only so many pieces of information before they must start generalizing – and glossing over the messy details that might show up the cracks in their simplified views of the world. When millions of people – in other words, a crowd – start to pare down and generalize in the same way, the result is gravity-defying price escalations.

That happened in the late 1990s with tech stocks. It happened again in 2004 and 2005 with home prices. The crowd forgets that it’s simply illogical for home prices to soar by 30% a year and participates in a mass hallucination. Just as the crowd decides that last decade’s blue jeans and ties are hopelessly out of fashion, so, too, does the crowd decide that today’s investment – whether biotech stocks or suburban tract homes – is in vogue. And just as suddenly and illogically, the crowd decides that those investments are out of vogue.

Students of human behavior who seek champions of “mob sentiment” need search no farther than the local newspaper or television newscast. Journalists present their publications as mere windows through which readers can view the world. This metaphor doesn’t hold up to scrutiny, for newspapers ignore events that don’t fit their biases, even as they distort and magnify the news that does match their pre-existing prejudices. In this way, newspapers are more like microscopes than windows.

The do-gooders understand this and use the media to their advantage. Rather than acting as “a watchdog of the people,” the reporter becomes “an attack dog for the politicians.” After the Sept. 11 terror attacks, do-gooder Bush masterfully manipulated the media.

“The trouble with the big wide world is that it is never quite good enough for some people. They keep trying to improve it.”

“The negative consequences at the end of an effort at world improvement are roughly equal and opposite to the positive aspirations at the beginning.”

“When the pot gets stirred up, it is the most ruthless who rise to the surface.”

“When you have an enemy so hopelessly ill-equipped and feeble as the terrorists today, you are faced with an entirely different sort of challenge. Your task is no longer to defeat an enemy...but to create one.”

Even *The New York Times* joined in to perpetuate the fantasy that Saddam Hussein posed a grave threat to the American way of life. In modern wars, reporters are far-removed from the bloodshed on the battlefield. They toil away in the bloodless conference rooms where generals and their minions massage the news, making them the perfect pawns for an ambitious world improver.

War and Remembrance: A Fool's Game

Humans believe themselves to be rational beings that consider the facts and change their views accordingly. In reality, people are utterly incapable of rational thought. Folks look at the facts and then force them to match whatever mass delusion is popular at that point in time. Don't believe it? Then take a hard look at the reflexive patriotism that accompanies every war ever fought.

The Brits offer a good example. Every Nov. 11, Britain celebrates Remembrance Day, and politicians, veterans and journalists roll out the clichés about how soldiers over the centuries died to preserve “the British way of life.” In truth, the English way of life has not been threatened in any war since 1066. The Brits were fighting to impose their way of life on someone else. And what of the British way of life? The argument that winning a war preserved anything is poppycock. The French and Germans suffered humiliating defeats in war, yet citizens of those countries still speak their mother tongues and carry on with daily life little differently than if they had won all of their wars.

The Brits are far from alone in carrying out pointless wars. The Americans repeatedly battled the Brits over territory, accomplishing little in the long run. The Canadians, Australians and New Zealanders all achieved independence from Britain with no bloodshed. Yet somehow the American freedom fighters of the 1700s are remembered as heroes for achieving, through bloody conflict, something other British subjects attained with no loss of life.

In addition to being unnecessary, war is unfailingly ridiculous. Wars almost always begin with “fraud and treachery” as political leaders grasp for an excuse to send the boys off to die. And they're almost always fought poorly, complete with flawed strategies and mixed-up orders. It's the soldiers who pay most dearly in these unnecessary wars. It's the soldiers, after all, who are shot, bludgeoned and blown-up. Yet these same soldiers, and their officers, never seem to ask the obvious question: Why am I risking my life for a political dispute or a territory grab? And why are my superiors so incompetent?

If soldiers – and their officers – were to ask these hard questions and arrive at logical conclusions, they'd lay down their guns and go home. But there's no logic in the foxhole. Instead, there's only genetic preprogramming.

For early man to survive, he needed to band together in groups. And for the group to have enough food and to ward off threats, each member of the group needed to be willing to fight and die for his fellows. Civilization has evolved, but mankind hasn't. The warrior still bases his self-esteem not on making a logical choice that leads to self-preservation, but on fighting in a manner that preserves his reputation among his fellow warriors. This holds true from the lowliest infantryman to the highest-ranking officer. Shouldn't a few German officers have been wise enough to take a break from killing Jews, Poles and Brits, and put a bullet in Hitler's head? Shouldn't a few Russian officers have done the same to Stalin? As obvious as this simple solution was, it never occurred to the people who were best positioned to see their fearless leaders' follies.

“The people who want to force their ideas on you are always the people whose ideas are the most idiotic.”

“The human brain is just not big enough for the big world. In order to think, people are forced to start simplifying and eliminating a lot of the detail.”

For Strength, Build Up the Enemy

What logical person could support the United States' blundering war in Iraq? Saddam Hussein was executed for killing 148 Iraqis during his long tenure in Iraq, yet that many people die there every day now that Saddam has been deposed and discarded.

With the U.S. in the midst of its misguided war on terror, biology continues to trump geopolitics. Just as Britain was an aging empire when it started its unnecessary wars, the United States now is an empire that's getting long in the tooth, and it, too, needs enemies worthy of big defense budgets and do-gooder, world-changing missions. Americans have come to believe that an army of terrorists wants to see them speaking Arabic and praying to Allah. In truth, this ragtag band of terrorists poses only a tiny threat. The terrorists are poorly organized and easily thwarted. So the task of the war machine isn't defeating an enemy, but conjuring up a foe that's worthy of all the fear mongering. Biologically speaking, it makes perfect sense to overstate the threat posed by an overmatched enemy. The more ominous and menacing the terrorists are made out to be, “the braver the warriors will seem in comparison, and the braver the warriors are, the more solid the group.”

As disastrous as the American war in Iraq has been, it's unfair to make too much of the blundering by George W. Bush and Donald Rumsfeld. They're just the latest do-gooders to get a world-changing mission between their teeth and refuse to let go.

Villian Mao and Hero Che

Just think of Chairman Mao, a deeply malignant world improver whose gruesome resume dwarfs all challengers. Mao, physically repugnant and intellectually stunted, killed an estimated 70 million Chinese through murder and starvation.

At least the world remembers Mao as a criminal. For some reason, the world remembers Che Guevara as a romantic revolutionary. Che set out to force the rest of the world to adapt to his bizarre form of socialism. In 1960, after his buddy Fidel Castro came to power in Cuba, Che traveled the world looking for wacky ideas he could use to impose his will on Cuba. Che was particularly impressed by North Korea. When he got back to Cuba, he issued edicts covering Cubans' favorite vices – drinking, gambling and sex. When the Cubans ignored his rules, Che set up concentration camps where the recalcitrant masses could be educated in the ways of his vision a bit more forcefully.

As a dyed-in-the-fatigues world improver, Che saw nothing wrong with executing peasants on bogus charges, murdering factory owners and purloining private property for his own needs. It took Che only a few years to realize that the Cuban revolution was a failure, so he set off to Africa to provoke similar mischief there. Yet in spite of his brutal, bungling methods, Che's face emblazons T-shirts sold worldwide.

About the Authors

William Bonner is president and CEO of a financial-newsletter company. He created the *Daily Reckoning*, a contrarian financial newsletter, and co-authored *Financial Reckoning Day* and *Empire of Debt*. Lila Rajiva is a journalist and author of *The Language of Empire*.