Where is Neo?

The Great – Leader Narrative and the Lack of Change in the Age of Financial Crisis

Term Paper

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Introduction

"The History of the World is but the biography of Great Men" – Thomas Carlyle

Neo is a fictional and the central character in the narrative "The Matrix." Neo is the "One" or according to narrative the anagram of One, the chosen one whose destiny is to bring peace. This paper uses the allegory of "The Matrix" to explain our need for a protagonist, the One, to lead us out the current economic crisis.

The central thesis of this paper is that **there will be no Neo**; that our search for Neo to help us out of the economic crisis is misguided and even detrimental to finding a solution to the current economic malaise. As Neo is a fictional character in "The Matrix", the protagonist we seek in the real world is fictional as well; our belief in the chosen one hinders our collective search for solutions to the current economic crisis. It's not for the lack of trying nor is it due to apathy. Human beings have a tendency to look to its heroes and leaders during crisis; however, in this instance there will be no knight in shining armour coming to the rescue because of the current economic system ("The Matrix", the Efficient Market Hypothesis) and the hundreds of millions of people, the corporations, governments, entitlement programs that heavily rely on it for their economic well-being make it impossible for such an individual to exist with the kind of credibility required to create or to have any kind of impact.

The search for Neo is misguided due to the paradox of modern market liberalism: that of individuals, who acting in their own self-interest produce beneficial societal conditions. This paradox rests on the belief that markets are efficient and self-organizing and that if left unimpeded will distribute resources efficiently; and that individuals who participate in this market act to maximize their own self-interests. This juxtaposition markets that governs itself and the narrative that individuals exercise free choice *"repeats (and illuminates) one of the central tenets of liberal individualism: in this model, some people can be sufficiently "creative" to become characters that merit narrative attention, but neither these traits nor the narratives that celebrate (or excoriate) them depart from larger patterns of liberalism."*[1] Thus the free market system allows for individuality by allowing for competition between individuals but the competition that is allowed is within the confines of the free market system. Hence, that narrative, of the individual, is worthy of attention as long as the narrative supports the institutions of the modern liberal market system. In other words, "the liberal subject" can have character but can't be unique within the market system; that "the liberal subject" can't be distinguished from the nameless others who populate and use the market system. Neo's narrative would not merit attention within the modern liberal market system as his intent would create harm within the institutions that support liberal markets.

The fact that there is a compulsion to hold individuals responsible for the financial loses encourages the delusionary search for Neo. This search presents a barrier to understanding that the problems are systemic, and systemic problems require systemic

[1] Poovey, Mary. "A History of the Modern fact: Problems of Knowledge in the Sciences of Wealth and Society." 1998

solutions; the current economic crisis will not solved by imprisoning "villains" no matter how strong the desire for revenge.

This paper starts off describing the current economic crisis and explains the archetypical drive for the search for heroes and leaders that will take on the crisis. The paper then introduces the Efficient Market Hypothesis and describes its historical underpinnings. The paper concludes with an explanation as to how the Efficient Market hypothesis undermines the rise of the One.

Problems, problems, problems...

There are economic problems everywhere we look: European Debt crisis is threatening to lead the world back into recession; we have just come out of a housing led recession and maybe heading into one; asset prices are falling are worldwide; credit is still not flowing; household balance sheets are weak and households have more debt than ever before; the global economy is slowing down once again; poverty is increasing at an alarming rate; jobless creation is stagnant; all this despite our best efforts. The problems this time around seem a lot different. We have had economic problems in the past; economic ups and downs have occurred in the past and recessions and slowdown are part of our economic heritage. But this time around, it is different. There seems to be on way out -- we could be living in a "new normal" of no growth, high unemployment, underfunded entitlement programs.

There are alarm bells going off everywhere; a snapshot of sentiments expressed by various reputable magazines over the last week or so all point towards some form of upcoming Armageddon:

> *"witness the increasingly dark economic backdrop. A slew of recent indicators suggests the euro area is slipping into recession, as Germany's exports slow, the fiscal screws tighten, confidence slumps and the banks' travails imply tighter credit. Even if the euro-zone crisis were to be solved tomorrow, the region's GDP would probably shrink over the coming months."*[2]

Or

> *"America's economy is still limping along though the summer slump in share prices and consumer confidence suggest future spending will weaken further...America is currently on course for the most stringent fiscal tightening of any big economy in 2012, as temporary tax cuts and unemployment insurance expire at the end of the year."*[3]

Or

> *"What about the cushion the emerging markets provide? That, too is getting thinner. Their growth is slowing. Recent falls in emerging-world currencies and stock prices show that financial panic can afflict the periphery too. Some emerging economies, including China, have less room to repeat their 2008 – 09 stimulus because of the debts that splurge left behind. Monetary policy can be loosened; several central banks*

[2] The Economist. "Be Afraid" Oct 1st 2011

[3]

have cut rates. But, overall, the emerging world will be less of a buoy to global growth that it has been hitherto."[4]

The universal cry seems to be: what the world economic crisis needs is leadership; according to a National leadership Index Poll conducted by the Center for Public Leadership at Harvard's Kennedy School, almost seventy percent of Americans believe that there is a leadership crisis in the country today. The cry if for better leadership; seventy-one percent of those surveyed believe that the United States will decline as a nation if the leadership crisis is not resolved.[5]

Where is Neo?

Within this "new normal" we seek the One. The One is archetypically to our existence; the hero archetype is found in mythology, religion, and in stories of all cultures. What we tend to forget is that heroes are constructions, they are not real. All societies have similar mythic hero narratives because heroes express a deep psychological aspect of human existence. The narrative of the hero has been useful for thousands of years for people for whom the hero serves as a larger than life entity, a super-person so as to speak, who is capable of dealing with problems and that typically surpass normal human beings and their abilities.

The narrative of the hero contributes to society's need to organize itself and to validate its value system; according to Breen and Corcoran[6]:

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[4]

[5] http://www.centerforpublicleadership.org/

[6] Breen, Myles, and Corcoran, Farrel. "The Myth in the Discourse." 1982

"Part of the perceptual system of a culture through which unfamiliar situations, originating either within the culture or outside it are interpreted and fitted into old symbolic molds. In helping to pattern the relationships among basic beliefs, values, and behaviours that organize social interaction, [heroes] produce common social understanding or new social conditions."

Similar themes have been expressed by Davis et al[7]:

"The images of the hero conquering death or returning from a successful battle provide the restricted conscious mind with new raw material into which to expand, thereby forcing consumers of the hero stories to expand their conscious image of themselves"

And by Campbell[8]:

"A hero ventures forth from the world of common day into a region of supernatural wonder: fabulous forces are there encountered and a decisive victory id won: the hero comes back from this mysterious adventure with the power to bestow boons on his fellow man."

Mythology, religion, literature have used heroes to reproduce societies' moral and behavioural traits. An excellent modern day example of this narrative, keeping in-line with the current allegory, is Neo's awaking from the Matrix. *"He is the saviour of the people imprisoned by a false reality. This is a theme that can be found in religions that are as*

[7] Davies, Robert, James Farrell, & Steven Mathews. "The Dream World of Film: A Jungian Perspective on Cinematic Communication." The Western Journal of Speech Communication. 46 (1982): 362 - 343
[8] Campbell, Joseph. "A hero with a Thousand Faces" 2008

diverse as Christianity and Buddhism...Neo is the manifestation of pure choice or freedom."[9] Human history, according to some is a story of great men.

The search for Neo is not passive. Look at the recent copy of publications around the world: *"Where are the leaders with the vision to act?"*[10] or *"What the West desperately needs is leadership with courage to risk unpopularity – and the vision to see there can be no way out of this crisis while Europe and America remain saddled with overweight public sectors they can no longer afford...The hour has come. But where are the men?"* or *"Most Depressing of all, even mighty America is lumbered with a president in denial, whose only answer to his country's stagnation is to spend to more money...How miserable Barack Obama has let down the hopes of millions who believed there might be some substance behind his telegenic posturing."* Where did all the leaders go?

Is lack of leadership puzzling? Leadership development, the making of Neo, is a $12 billion industry[11]. This industry includes both management and supervisory training and executive development. Billions of dollars are spent on leadership research and books on leadership are one of the fastest growing sectors in the non-fiction category. Books titled "Leadership" litter the shelves of every bookstore. So what seems to be the problem? Where are our leaders? Look at the events of human history; the events are not produced by impersonal forces but is produced by the great personalities, so the theory goes. The need to categorize and or to personalize key historical events around key personalities is pervasive is most if not all fields of study. According to Byman *"How can we explain*

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[9] www.thematrix101.com/contrib/myoung_aitptm.php
[10] http://www.dailymail.co.uk/debate/article-2041086/World-economic-crisis-Where-leaders-vision-act.html
[11] http://trainingmag.com/sites/default/files/trg_2011IR.pdf

twentieth-century history without reference to Adolf Hitler, Joseph Stalin, Vladimir Lenin, Franklin Roosevelt, Winston Churchill, Mahatma Gandhi, or Mao Zedong?"[12] So where is Neo?

The Rise of "The Matrix"

There is no Neo due to the paradox of the modern liberal market ideology; the paradox states that as individuals we are all cogs in a larger system; we as individuals can be creative and merit narrative attention, but we can't depart from the larger patterns set by the liberal markets. Hence, Neo would get attention within the system but can't depart or change the larger patterns set by the system. We live in this system; an econometric model termed "The Efficient Market Hypothesis" – The Matrix; this model is pervasive and global; everyone, every corporation, every government is dictated and ruled the tenets of this model. This system has led to market and economic complexity; most of us are dependent on the system for economic stability; our personal assets are within the system; public policy is dictated by the system; changing or replacing the system would cause economic havoc. It is impossible for one person to radically alter its functions and its tenets. The following paragraphs describe its creation and provide a deeper look into the systems reach.

The rise of the Efficient Market Hypothesis, The Matrix, can be traced back to 1759 to Adam Smith's "The Theory of Moral Sentiments." In it Smith suggests that markets work paradoxically by creating equilibrium between self-directed individuals who labour

[12] Byman, Daniel L. & Kenneth M. Pollack. "Let Us Now Praise Great Men: Bringing the Statesman Back In" International Security, Vol. 25, No. 4 (Spring, 2001), pp. 107 - 146

for themselves and in doing so unintentionally increase the well-being of his fellow citizens; in a telling passage, Smith describes a selfish landlord as being led by the invisible hand to distribute his harvest to those who work for him:

> *"The proud and unfeeling landlord views his extensible fields, and without a thought for the wants of his brethren in imagination consumes himself the whole harvest...the capacity of his stomach bears no proportion to the immensity of his desires...the rest he will be obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of among those who provide and keep in order all the different baubles and trinkets which are employed in the economy of greatness; all of whom thus derive from his luxury and caprice that share of the necessaries of life, which they would in vain have expected from his humanity of his justice...The rich...are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among the all its inhabitants, and thus without intending it, without knowing it, advance the interest of society..."*[13]

Modern economists have tried to explain the paradox through various arguments.

> *"Among the simplest is the argument that the reason that individual acts of self-interest produce general social benefits is that some capitalists lure buyers away from competitors by introducing cost-saving innovations. While these innovations*

[13] Smith, Adam. "The Theory of Moral Sentiments" 6th Edition 1790

primarily benefit their inventor in the short run, in the long run, others imitate the innovations and the ensuing competition lowers prices for everyone."[14]

Smith's ideas of equilibrium gained traction in the late 19th Century when his ideas began to be represented mathematically; however, in order to do so, Smith's theory of labour was rejected in favour of models that favoured utility. The theory of utility states that the price of an object is determined by the amount of satisfaction a person derives from possessing that object; that the price of the object is independent of the amount of labour exerted in its production and the price is also independent of object's usefulness. A classic example of an apparent contradiction is that of "diamond – water paradox"; which states that *"although water is on the whole more useful, in terms of survival, than diamonds, diamonds command a higher price in the market."*[15]

The adoption of the theory of utility and the ability to quantify and mathematically model the political economy would give rise to the "science of economics". The move towards quantification laid the foundation of the postulation of the Efficient Market Hypothesis, "the creation of the Matrix". The ability to mathematically model and examine markets meant that markets were rational and could be manipulated. It didn't take long for the jump to be made that if markets were rational and could be manipulated than the management of the markets would be rational as well; hence led to the conviction that the art of management was no longer an art but a science within which rational principles operated. *"In the United States, this conviction led to the creation of a number of Universities – Based business schools devoted to the kind of disinterested, rational managerial style that*

[14] ???
[15] http://en.wikipedia.org/wiki/Paradox_of_value#cite_note-5

Smith and others had implicitly identified in markets.[16]" In fact business schools were modeled on the principles of rational, self-governing markets. According to Khurana, the relationship between business schools and universities provided scholars, who after the Second World War, developed monetary and trade policies that helped the United States appropriate economic superiority from Europe and especially from Great Britain. These scholars helped create a highly complex financial literary field that eventually made it impossible for the lay person to full understand the workings of the global economy and eventually laid the foundation for the introduction of highly complex financial tools and products that led to the global economic meltdown. The ceding of responsibility to experts coupled with a complex financial infrastructure makes it impossible for the appearance of Neo.

Several monumental events conspired to make the adoption of the Efficient Market Hypothesis as the dominant paradigm: first, the widespread adoption of the gold standard by various nations from the mid 1870's centralized the monetary power in Great Britain; with centralization of monetary power comes the ability to squash competition and eliminate competing economic models especially during the formative stages of the efficient market hypothesis; second, the disruption on credit flows during the First World War, hyperinflation, adoption of hyper-inflationary policies to combat the Great Depression, led to the subsequent collapse of the gold standard; this left an economic vacuum, that, lastly, the United States was more than happy fill after the second world war; resulting in the creation of an international financial system modeled along the

[16] Khurana, Rakesh. "From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession."

rational, free market ideology being developed in the universities and academic institution in the United States. Consequently, the United States forcefully exerted its worldview on the development of economic policies after the Second World War through the funding of the reconstruction of Europe and the Far East; and the creation of international systems and institutions to govern monetary policies across the globe. All this was designed to create and support the monetary superiority of the United States and the American Dollar; but more importantly, the United States was advocating an economic mode of thought that was geared to the laying down promulgating of the Efficient Market Hypothesis.

The economic mode of thought coursing through the universities in the United States relied heavily on economic theory, statistics, and mathematics. Economic theories prior to the 1930s were all conjectural; notions such as market efficiency were not supported by tangible evidence nor could these notions be modeled and manipulated. The conjectural nature of economic theories led governments to adopt wasteful and ineffectual policies and economic initiatives. For example, in order to pay their bills during the First World War, governments increased the circulation of money, without fully appreciating the impact this action would have on inflation nor did they understand the impact this decision would have on maintaining the stability of their currency. Econometrics provided the ability to test, model, simulate and hence understand the impact of these decisions before making them in the real world. Econometrics provided a foundation from which "real world" situations could be analyzed and models created that would help make "prudent" economic policies.

The mathematical formulation and the adoption of the theoretical model that depicted financial markets as rational and self-governing were complete by the 1970s. The formulation of Efficient Market Hypothesis was complete. The elaboration of the theory and the mathematical formulation was shared and heavily advocated by economics departments and business schools alike. These institutions begun to hire faculty members with backgrounds in econometrics and proceeded to churn out thousands of newly minted professionals fully indoctrinated in the free and efficient market ideologies.[17]By the 1980s economic principles became the cornerstone of American business schools which hired more discipline-trained faculty that emphasized quantification.

By the 1970s economics began to describe itself as a science. Mathematical models became even more complex and exotic. For example Paul Samuelson mathematically demonstrated that perfectly functioning financial markets generates a "random walk" or that prices vary randomly around a mean; according to Khurana:

> *"The mathematical expression of the stock market was further refined in the wake of two additional theoretical claims, advanced by University of Chicago-trained economists. The first which shifted attention away from the prices of individual equities to the risk represented in an entire portfolio, was initially set out in Harry Markowitz's "Portfolio Theory," published in 1952 in the Journal of Finance. The second, Eugene Fama's decision to unite the hypothesis that markets are efficient with a model for pricing assets, was published in 1970 in the same journal, in an article entitled "Efficient Markets: Theory and Evidence." In 1972 the theoretical*

[17] Khurana, Rakesh. "From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession."

justification and mathematical equations required to apply this theory were made available for business-school instruction in the "Theory of Finance" authored by Fama and Merton Miller (who taught at the University of Chicago Graduate School of Business)."[18]

The development of the random walk theory and a search for a grand theory for efficient markets were similar to theories developed in other fields especially natural sciences; for example Karl Pearson first introduced the term "Random Walk" in 1905 and the physicists search for a "Grand Unified Theory" that explains the entire workings of the Universe replicated the advances in econometric modeling. From the 1970s US business schools began to design and adopt curricula exclusively to support the capitalist market ideologies including courses in financial analysis. The inclusion of more economists in business school faculties and the adoption of Efficient Market Hypothesis transformed business schools into "institutions that trained professional investors and financial engineers." This transformation betrayed the idealism behind locating business schools in universities in favour of narrow opportunism that stressed only self-interest.[19]

The Efficient Market Hypothesis provides a description of economic reality inputting various variables that depict the complex relationships between international trade, monetary policies and corporate performance; the results of which are reflected in share prices of companies traded on various stock exchanges. Fama, defined its essence:

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[18] Khurana, Rakesh. "From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession."

[19] Khurana, Rakesh. "From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession."

that the price of a financial asset reflects all available information that is relevant to its value. According to the Economist Magazine, the Efficient Market Hypothesis is such a powerful idea that

> *"conclusions were drawn, not least on Wall Street. If the EMH held, then markets would price financial assets broadly correctly. Deviations from equilibrium values could not last long. If the price of a share, say was too low, well-informed investors would buy and make a killing. If it too dear, they could sell or short it and make money that way. It also followed that bubbles could not form – or, at any rate, could not last: some wise investor would spot them and pop. And trying to beat the market was fool's errand for almost everyone. If information was out there, it was already in the price."*[20]

On such ideas, the Efficient Market Hypothesis was reinforced by three key events or processes that started in the 1970s: (1) the introduction of portfolio theory, which provided a basis for pricing risk at the aggregate level rather than individual stocks; (2) the passage, in the US, of the Employee Retirement Security Act in 1974 (ERISA), which required companies to fund employee retirements as a protection for employees against corporate bankruptcy; and (3) the rise of the financial professional, who managed financial assets and provided investment analysis and advise on a variety of financial instruments that were introduced to take advantage of the huge sums of money that were put aside due to ERISA. ERISA had the unintended consequence of endorsing the

[20] The Economist. "Efficiency and Beyond" July 16th 2009

principles of portfolio theory.[21] Therefore, the combination of a theory that could be expressed mathematically, the legal requirement (in the US) that a huge volume of assets be channelled into managed funds and the subsequent further increase in assets that had to be management, and lastly the availability of a group of professionals trained to implement the theoretical claims of economists, helped Efficient Market Hypothesis became conventional thinking. [22]

The 1980s marked a crucial turning point; supply side economics endorsed by Ronald Reagan, the President of the United States, and Margaret Thatcher, Britain's Prime Minister cemented the Efficient Market Hypothesis. Financial engineers who developed the theoretical underpinnings of the Theory reassured all doubters that the use of Efficient Market Hypothesis would not only help economic growth but would make the financial system safer and the economy healthier. Relying on this advice, Reagan and Thatcher pushed through legislative measures that facilitated free market policies and set up conditions that favoured laissez-faire policies: banking restrictions were lifted, taxes were cut, interest rates were raised and military spending increased; resulting in a period of non-inflationary growth, increased domestic consumption, and the accumulation of huge deficits. With the *"enormous growth is assets and investment opportunities that followed, investment banks like J.P. Morgan and Bear Stearns began to devise financial instruments that allowed them to trade in various kinds of securities, take advantage of temporary inefficiencies in global markets, and maximize the degree of leverage involved in individual wagers. Among these financial innovations were instruments that deployed the*

[21] Fox, Justin. "The Myth of the Rational Market: A History of Risk Reward, and Delusion on Wall Street."
[22] Fox, Justin. "The Myth of the Rational Market: A History of Risk Reward, and Delusion on Wall Street."

assumptions and mathematics that underwrote the efficient market hypothesis...The engineers designed derivatives and securitisations, from simple interest – rate options to ever more intricate credit-default swaps and collateralised debt obligations. All the while confident in the theoretical underpinnings of their inventions, they reassured any doubters that all this activity was not just making bankers rich. It was making the financial system safer and the economy healthier."[23]

The variable that could derail the system was risk. In the quest for perfection as postulated by the Efficient Market Hypothesis, financial engineers and economists pushed for ways to distribute risk as widely as possible and to as many parties as possible, such that equilibrium would be produced in a worldwide economic market. In theory, risk distributing instruments, such as credit deferred swaps, and structured investment products like derivatives could produce the kind of equilibrium and could generate the kind of "market perfection" that was desired.

The system spread worldwide; risk was distributed; equilibrium attained; the Matrix was complete.

Agent Smith

The system can't survive without its evangelicals; the agents who maintained and lubricated the system to ensure its survivability. The United States and Britain heavily advocated agency theory, which pegged the interests of the company executives with that of its shareholders. The reasoning was that "market prices were assumed to reflect all

[23] Khurana, Rakesh. "From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession."

available information about the company's – and its executives – performance."[24] Picking up from Adam Smith, if the executives thought only for their self-interest, their actions would be beneficial to the shareholders of the company the managed; if all executives did this, their collective actions would lead to greater societal benefits.

The adoption of the discipline of market prices and of pegging executive salaries to how these prices performed led the executives to seek ways to maximize shareholder returns (i.e. stock prices). Given that their compensation was tied to their company's performance, the executives became the agents of the Matrix; it was in their interest to keep alive the free market ideology postulated by the Efficient Market Hypothesis.

Where is Neo?

Coming back to the original question: Where is Neo? Unfortunately, as we have seen, there will be no Neo. Neo is a mythic figure, a paradoxical concept central to the liberal market ideology. According to this ideology:

> *"An Individual can **HAVE** character but not be unique; the individual can be a **CHARACTER** but not depart radically from the norms that render all individuals interchangeable."*[25]

Thus villains and heroes, those who may have certain traits that seem to set themselves apart from the multitude do not really stand out from the masses; they maybe be individuals but are cogs in a larger system; these individuals can be creative and may merit narrative attention, but they can't depart from the larger patterns set by the liberal

[24] Fox, Justin. "The Myth of the Rational Market: A History of Risk Reward, and Delusion on Wall Street."
[25] Poovey, Mary. "A History of the Modern fact: Problems of Knowledge in the Sciences of Wealth and Society."

markets. The Efficient Market Hypothesis has led to market and economic complexity, so much so that it is impossible for any one person to radically alter its functions and its tenets as his voice or narrative will be drowned out due to competing narratives.

The system ensures that "the efforts of countless individuals support the well-being of the system as a whole because the only efforts that matter are those that support system." [26]

[26] [26] Poovey, Mary. "A History of the Modern fact: Problems of Knowledge in the Sciences of Wealth and Society."