

Classical Insights

Global Investment Analysis Based on the Classical Economic Model

Classical Insights Afternoon Bullet Points October 27, 2009

I just finished a new biography of Ayn Rand, "Goddess of the Market," by Jennifer Burns, and it's a real page turner. I scribbled notes in the margin on every other page and probably underlined 10% of the text. I'd never read any of Rand's works, assuming she was some kind of nut. In reading Burns, I came to understand *why* I assumed she was a nut: It was the result of a deliberate hit job by the conservatives of the '50s and '60s, led by William F. Buckley. What Buckley didn't like about Rand, first and foremost, was her atheism. To Buckley and his fellow travelers at *The National Review* (where the hit pieces were published), capitalism *had* to have a Judeo-Christian basis. The alternative was "godless" communism.

Burns' book was especially powerful for me personally because I spent six years working for Jude Wanniski at Polyconomics, a supply-side think tank that, at the time (late '90s), stood at the heart of pro-growth economic thought. Jude spoke constantly of Ludwig von Mises, Murray Rothbard and F.A. Hayek but I never heard him mention Rand. Now I think I see why: Jude was Catholic and took his Catholicism fairly seriously. Thus, he may have agreed with Buckley that atheism and capitalism were a bad mix. Ironically, both Rothbard and von Mises were huge Rand fans. Rothbard went so far as to call *Atlas Shrugged* the greatest novel ever written.

Rand's experiences growing up in St. Petersburg were crucial to her hyper-capitalist stance. Her father was a successful pharmacist, but his business was confiscated by the Bolsheviks. He refused to work for them, thus giving Ayn the role model for John Galt in *Atlas Shrugged*. Rand's family came close to starvation in the early 1920s. At one point Ayn (then known as Alisa Rosenbaum) and her mother argued over who would get the last pea. Rand brought an intense moral urgency to her studies of economics as a result of her childhood traumas.

Most defenders of capitalists are quite sheepish: They basically write *apologias* for the inequality and self-centeredness capitalism seems to imply. But Rand turns the tables, arguing that it's not the toiling masses who support the capitalists in luxury, it's the *toiling capitalists* who support the masses. It is the innovators and visionaries who pull the carriage of society. Without them, society stagnates and implodes. This is a profoundly individualistic vision. It's not surprising, then, that Rand opposed *altruism* in all forms. She argued that altruism puts the self in a subservient role to an external entity (the state or church) that cannot itself be a creator. The self is thereby alienated, making true innovation impossible. The result for society at large is stagnation and deprivation. She was infuriated by JFK's famous line, "Ask not what your country can do for you, ask what you can do for your country."

The Republican schism

Buckley effectively kicked Rand out of the mainstream of the conservative movement via the publishing of two scathing attacks in *The National Review*, one in the 1950s (written by Whittaker Chambers) and one in the mid-'60s (by M. Stanton Evans). Buckley told Evans that he wanted a "definitive" piece on Rand that would "demonstrate to people of commonsense that her ideological and philosophical presumptions make her an inadequate mentor." (Burns, p. 230). The split that Buckley initiated continues to this day. There are religious Republicans who generally favor pro-growth policies, and then there are the Libertarians, who are also pro-growth but dislike many of the policies the fundamentalists favor.

Ronald Reagan was able to bridge the gap between the two wings of the Republican Party, as was George Bush Jr. But can it be done again? Maybe – *but this time the Libertarians will demand a greater say*. Three big changes have occurred in the nine years since Bush Jr.'s first election, all of which have served to make Libertarians more wary of Republicans:

1) The outing of Bill Kristol and many other neo-cons as overtly Machiavellian in the wake of the Iraq war has hugely undermined both the moral and intellectual integrity of the politico-religious right. Kristol, Richard Perle, Alfred Wohlstetter and Paul Wolfowitz all went to the University of Chicago and either studied directly under Leo Strauss or studied under one of his direct disciples. Strauss was an interesting and very readable philosopher, but his work included a disturbing undercurrent: He endorsed Plato's concept of the *noble lie* as a means to getting the masses to agree to goals they would never approve of otherwise – goals determined by a self-appointed elite. The neo-cons gained power by mouthing allegiance to conservative Judeo-Christian beliefs – and then parlayed that influence into the Iraq War. The canard of “weapons of mass destruction” was a classic example of a noble lie. For me, the proof that Perle/Wolfowitz/Kristol *et al* was one big conspiracy was that their chosen savior for Iraq, Ahmed Chalabi *also went to the University of Chicago and also was a Straussian.* (When I learned that I almost fell out of my chair.) Shadia Drury, a political philosophy professor at the University of Regina in Saskatchewan, wrote a great book exposing the whole string of connections (*The Political Ideas of Leo Strauss*, 2005).

2) Conservative Christian beliefs get wackier with each passing year in relation to the state of the art of human knowledge. Libertarians are practical, data-oriented people. They follow science – and scientific change is happening at an *accelerating* rate. Fundamentalist beliefs, by contrast, change slowly and linearly. Most top candidates for the 2012 Republican nomination are either creationists (Huckabee and Pawlenty) or Mormon (Mitt Romney). If one is a creationist, one is almost by definition a *non-curious* person. Perhaps Libertarians will decide they've had enough of non-curious presidents (Bush Jr.). Romney might be a special case. It's almost inconceivable that he actually believes a lot of that Mormon stuff. Perhaps he has stuck with it for cultural reasons or out of political expediency. That doesn't make it right, but at least you can sort of see what he's doing. I didn't support Romney in 2008 for a couple of reasons (Mormonism being one), but he is definitely very strong on economic policy. So, on that basis, I would at least be willing to give him a fresh look in 2012.

3) The Republican Party hasn't done anything useful since the Bush tax cuts of 2003 and in many ways has gotten worse. From a Libertarian's perspective, Republicans are as bad as Democrats – and worse in some ways (foreign wars, drug policy, corporate giveaways, domestic spying). The simmering Libertarian disgust with both established parties has finally blown into the open this year with the rise of the Tea Party movement. More recently, a fascinating development has been the surge posted by Conservative Party candidate Douglas Hoffman in the special election for New York's 23rd congressional district seat. The latest poll, commissioned by the Club for Growth, shows Hoffman leading with 31.3% support, Democrat Bill Owens with 27.0%, and Republican Dede Scozzafava with 19.7%.

This all brings us back to Rand. One of Burns' most interesting claims is that it was Rand who anchored Libertarians to the political right 50 years ago, when they just as easily could have gravitated to the left. Many early Libertarians were hippies and beatniks who supported (for instance) easing of drug laws. But the raw power of Rand's pro-capitalist arguments (particularly as laid out in *The Fountainhead* and *Atlas Shrugged*) pulled many of the hippie Libertarians to the political right and kept them there. Rand also was a huge influence on the founder of the Libertarian Party, David Nolan. Not for nothing, it seems, did Ron Paul name his kid Rand.

So where will this schism lead? I see two potential scenarios. The first is that Republican candidates start to incorporate Libertarian positions on a more regular basis. For their part, Libertarians say their attack on Scozzafava is not an attack on all Republicans, just this one particularly *egregious* Republican. The hope is that other Republicans will see the error of their ways. That may be starting to happen. In Virginia, it's interesting to watch Republican gubernatorial candidate Bob McDonnell try to talk his way out of a fundamentalist-inspired graduate thesis he wrote 20 years ago, which set him back 10 points in the polls when it came to light. It looks like he's going to win, in part by promising that his religious beliefs won't affect how he will govern. McDonnell is effectively pushing for a re-strengthening of the divide between religious views and policy decisions. Such a development would be good for Libertarians, many of whom are atheist.

The second possible outcome is that Republicanism degenerates into a ghetto for southern fundamentalists. In this scenario, Libertarians and Tea Partiers might try to build a serious third party. Third Party efforts almost always fail, but every once in a while an *established* party collapses, opening the door for a new one. (I'm thinking here of the Whig Party, which collapsed in the 1850s over the slavery question.) It's interesting to note that some of today's top business leaders are Libertarian. The founders of Craigslist, Wikipedia and Whole Foods are all Libertarians, as is Ted Turner. Are the Republicans still the logical party for these guys? That's very unclear. The Republican Party is not the party of Reagan anymore. It's closer to being the party of Archer Daniels. John Mackey, founder of Whole Foods, was a Ron Paul supporter in 2008 and eventually voted for Bob Barr. Turner, of course, is a Democrat.

I should point out that Rand made some serious intellectual errors. She was obsessed with the primacy of reason over emotion, and believed that morality stems from rational choice. This latter notion has been disproven by the science of the last 50 years (see, for instance, Franz de Waal's experiments with ethics in monkey tribes). Rand also made bizarre claims such as that anyone could choose to be a great painter or artist if they so chose. (In other words, she rejected innate talent.)

Last point here: It's often said that Rand was a bad writer, but I'm not seeing it. I just finished reading one of her earlier works, *Anthem*, and I think she is quite a good writer. She is clear, to the point, and keeps the plot moving.

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