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## The Mystery of the Masters -- How Could So Many be So Dumb?

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I don't know how clean water comes out of the tap when I turn the handle. It just does. Every time.

That is why this financial crisis is so damaging. Our trust in those who made the financial system work has been decimated - no less than we would lose faith in the water company if the taps started dripping cyanide.

Companies don't have values or ethics or competence. People do. And the most important people in those companies have let us down on a world-changing scale.

We now see clearly enough the chain of failures reaching from mortgages to bonds to investments to swaps.

But we will be a long time figuring out how and why some of the most powerful business people and regulators of our time never saw those failures reaching critical mass.

As a psychologist, I am intrigued, but, like everyone else, also grasping for answers.

Greed? Certainly that is part of it. But "greed on Wall Street" is the normal way of things. It's too easy an answer, although an understandable one for those trying to make sense of disrupted lives. Greed, after all, is something we can understand.

What we can't understand is why the people who knew better simply chose not to.

In a new book called *Think Again*, Dartmouth Tuck School of Business Professor Sydney Finkelstein looks to neuroscience for an explanation.

He believes that those who made the epically bad decisions over the past decade were victims of their own wiring: ignoring anything that doesn't match up with prejudice (think the run up to the Iraq war); blind confidence that what worked in the past will continue to work; putting self-interest ahead of group interest; and becoming so attached to their creations that they drove them to failure rather than admitting their flaws.

Evidence says you can be all of that and still make a ton of money. From some, in fact, it's a career strategy.

Many who served the masters of finance report that they sounded internal warnings about the coming train wreck, but they were drowned out by the sound of money hitting the bottom line. Year after year, the alarm sounders were wrong and the full-throttle gamblers were promoted. In the end, only the gamblers were in control.

The frightening thing now is the absence of humility, which greatly complicates the search for the black box, which contains the lessons learned.

Lehman Brothers' Richard Fuld still says everything would have been OK if the government had stepped in to save the company he ran into ground. Citigroup's Robert Rubin says nobody could have seen this coming and, besides, his role was only advisory. Merrill-Lynch CEO John Thain tried and failed to get a \$10 million bonus from the company that he guided to oblivion. SEC head Christopher Cox said that the destruction fell outside SEC's job description, neglecting to mention that just days before Bear Stearns fell he had enough interest in matters to express "a good deal of confidence" in the company's capital levels.

Alan Greenspan made an attempt at contrition; owning up to his flawed assumption about the "self-interest of lending institutions to protect shareholder's equity." But wait. What he's really saying is that it's not his fault that these institutions were so stupid. He simply expected too much of them.

So unabashedly un-chastened are the big banks that they are refusing to tell us how they are spending the bailout money that we will be paying off for generations. The response from the very people who brought the world to the brink by their incompetence: Trust us.

We've seen the flaming spiral of the wizards before. It is always followed by day-late regulatory reaction and determined assurances that this will never, ever happen again. And yet it does. Maybe not in quite the same way, but it does.

Will the depth and breadth of the pain this time create a better generation of financial leaders; not just smarter, but essentially different from those who, blindfolds tied firmly in place, have driven us off a cliff?

Knowing that the past is almost always prologue at the junction of big power, big cash and big egos - I have big doubts.