

# Trump Happens When Cultures Believe Private Can Cover for Public

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*The chaos Trump now wreaks has been enabled by the contemporary disregard for 'public'. History shows that when cultures favour 'private' over 'public' too much, tyrants emerge and public problems accumulate beyond the capacity of private to fix. This time, it matters more than ever, because our public problems are becoming existential.*

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## INTRODUCTION

Shocking as last week's events were, it has all been seen and said before. WB Yeats' lines from a century ago read like a dispatch from the steps of the US Capitol:

*'Things fall apart: the centre cannot hold;  
Mere anarchy is loosed upon the world,  
The blood-dimmed tide is loosed, and everywhere  
The ceremony of innocence is drowned;  
The best lack all conviction, while the worst  
Are full of passionate intensity.'*

Even an 'innocent ceremony' last week – the certification of the Electoral College results that in most years is a procedural non-event.

Yeats powerfully captured the two dynamics that repeatedly enable demagogues like Trump: the emptying of society's middle ground and that: 'all that is required for the triumph of evil is for good men to do nothing.'

The latter is the troubling dynamic of tacit complicity. Psychologists talk of the 'bystander' effect in which most human beings – us? – avoid taking responsibility for problems in the hope that others will step up. So dangerous is this instinct at large scale that JFK used unusually strong language to condemn it: 'The hottest places in hell are reserved for those who, in times of great moral crisis, maintain their neutrality.'

But what if our norms make us all complicit?

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The violence Trump incited last week is just one aspect of a daunting set of inter-related social and environmental problems that continue to mount in plain sight. Political chaos in the US arises from the same desertion of the middle ground and erosion of civic spirit that also thwarts efforts to address social and environmental problems of increasing scale. That such problems mount – and stubbornly defy our efforts to resolve – is because we are all effectively complicit in their propagation, in turn because our current norms, narratives and social structures make it almost impossible not to be complicit.

What connects Trump's demagoguery with environmental and social problems is that both flow from the contemporary neglect of 'public' in favour of 'private'. Societies have always grappled with the innate tension between public and private, but history shows that when cultures privilege private too much, tyrants emerge and public problems accumulate beyond the capacity of private to fix.

Today's lurch to private has been rationalized by the 'modern' belief that markets 'have it all covered' and, hence, all the public we need is 'minimal government' to uphold property rights. Public is simply the sum of all private, we told ourselves, and markets can do the adding up for us to create the best of all possible worlds. The mantra of our times: 'markets are the solution/government is the problem'.

Hence, we have felt it safe to encourage the pursuit of self-interest at large scale – as 'consumers', not 'citizens' and also, in super-sized form, as corporations duty-bound to maximize profit.

Alas, markets are failing much more than their advocates had promised. Markets seem not to add everything up, but rather to leave a growing mass of social and environmental problems in their wake. 'Markets are the solution' has been false advertising.

Yet, 'government is the problem' has proved a self-fulfilling prophecy. Persistent discrediting of government has driven the best of society into the silos of private business and a vacuum has slowly formed in the public square into which ambitious men have been emboldened to venture. Tyrants emerge when everyone is lulled into thinking it is safe simply to 'mind their own business'.

At the same time, the 'anti-public' narrative leaves society increasingly forced to address mounting 'public goods' problems from within the private structures that have been favoured, but which may be no match for the scale and severity of those problems.

But none of this is new. It has all happened before.

## THE PUBLIC-PRIVATE PENDULUM SWING

While many businesspeople and investors are versed in market history, the history that is most pertinent today is not the history of markets but rather the contextualizing history of cultures that have allowed markets and private interest to matter too much.

Albert Hirschman documented the dangers in his still relevant 1977 book, *The Passions and the Interests*.<sup>1</sup> In one section, Hirschman recounts how both Adam Ferguson (in 1767) and Alexis de Tocqueville (in 1835) articulated the dangers of the trap into which we have again just fallen. It reads like a Chronicle of Trump Foretold.

If private interests are allowed to supplant civic concerns, Ferguson and Tocqueville argued, the best and brightest of society would become so drawn to the pursuit of private gain that a slow but steady decay of the public sphere would inevitably ensue. Talent flowing into the public realm would ebb;

ethics and standards would fall, allowing a vacuum to form at the heart of society into which, in Tocqueville's words:

*'it will be possible for a clever and ambitious man to seize power.'*

Hmmm.

Alas, if too many people come to believe that 'minimal government' is a viable idea, then all we will ask of government is that it uphold the basic laws required for the pursuit of private gain, and no more. Government will be slowly reduced to becoming merely the facilitator of what market actors want. But, Tocqueville challenged those that 'for the sake of a favourable business climate', ask only for 'the maintenance of order':

*'A nation that demands from its government nothing but the maintenance of order is already a slave in the bottom of its heart... and the man who is to chain it can arrive on the scene.'*

Hmmm.

What 'minimal government' advocates forget is that government cannot be entirely eradicated, if only because it is needed to uphold property rights, so if it is discredited, it simply ends up being restaffed, often for the worse. Then, because government's powers may easily be revived by its incumbents, all bets are off.

Adam Ferguson, often lost in the considerable shadow of his contemporary Adam Smith, anticipated Tocqueville's comments a century earlier. He described a pendulum swing back and forth between public and private primacy – each era becoming pregnant with its opposite. Ferguson effectively identified not a business cycle, but a cultural cycle – a longer-term oscillation between private and civic primacy, in which the gradual ascendancy of one reliably sees the accumulation of problems that only the other can resolve.

Hence, at certain times, the rise of business and commerce is a welcome counterbalance to cultures that have become authoritarian:

*'the spirit of commerce, intent on securing its profits, has led the way to political wisdom...'*  
and *'...the wealthy citizen [proves] formidable to those who pretend to dominion.'*

Yet, over time, such auspicious beginnings give way to the problems identified by Tocqueville. As the 'cravings of luxury' and the 'fear of losing what is held' come to dominate citizens' concerns, so:

*'the foundation on which freedom was built may serve to support a tyranny.'*

**Paradoxically, you can press the case for individual freedoms so hard, you end up paving a road to tyranny.**

Indeed, so ancient a pattern is this that Ferguson could quote Tacitus, the Roman historian (AD 56-120), who observed that: 'the admiration of riches leads to despotical government.' Tacitus, too, knew of a Senate on a Capitol Hill, replete with eagle insignia.

As Hirschman summarized:

*“As long as not everyone is playing the ‘innocent’ game of making money, the total absorption in it of most citizens leaves the few who play for the higher stakes of power freer than before to pursue their ambition. In this way social arrangements that substitute [material interests] for [civic passions] as the guiding principle of human action for the many can have the side effect of killing the civic spirit and of thereby opening the door to tyranny.”<sup>2</sup>*

Doors were dangerously flung open to tyranny just last week, yet I venture that none of Hirschman’s observations are in the CFA course, nor being taught in business schools. And so, we are preparing young people for a career in business with too little comprehension of what may result should they all succeed.

## THE NEOLIBERAL SWING

So, where are we today?

For the last forty years, the pendulum has swung towards private and away from public, to favour market forces and material interests over non-market institutions and civic passions.

This period of ‘neoliberalism’ is just the latest iteration of the cycle Ferguson described. This time around, the core concepts were articulated by Friedrich von Hayek in his 1944 *Road to Serfdom*, which – *at that time and in that context* – constituted a justifiable reaction to the horrors of authoritarianism the world had just endured. Hayek promoted his ideas for the remainder of his life, helping establish a global network of think tanks that continues to press his core messages of market primacy and minimal government.

His ideas were finally realized when Reagan (‘government is the problem’) and Thatcher (‘there is no such thing as society’) came into office and implemented their market-privileging agendas. This was the point at which neoliberalism replaced the ‘embedded liberalism’ of the post-war period, which had held the moderating influences of market and government in balance, but which balance was now lost and has not yet been regained.

Arguably more fateful than the push for neoliberalism from obvious promoters was its endorsement from ostensible opponents. In the Clinton and Blair eras, politicians of the ‘left’ who might historically have countered neoliberal ideas, instead embraced them. ‘It’s the economy, stupid’ was Clinton’s mantra. Mrs Thatcher’s greatest achievement? ‘New Labour? We got our opponents to change their minds.’ Neoliberal principles became entrenched as the unquestioned status quo. In having sought to change the trajectory of culture from so far upstream in the world of ideas, Hayek has proved to be one of the most consequential figures of the 20<sup>th</sup> Century.

### Neoliberalism is a runaway feedback loop

It was Samuel Butler who said that ‘all philosophies are nonsense if you ride them all the way home’. Today, we have ridden neoliberalism all the way home to its foreseeably chaotic conclusion. From when and where it was first glimpsed, neoliberalism was a sensible direction to head, but it is proving a lousy destination to actually have reached. Alas, we have ridden the ideas so hard and so long, we have forgotten how to stop.

That is because the core narrative – ‘markets are the solution/governments are the problem’ – has the structure of a runaway feedback loop – a dynamic common to complex systems, of which human society is one. All complex systems contain ‘positive’ or reinforcing loops, which exacerbate situations – think of stock market bubbles or vicious spirals – and ‘negative’ or dampening loops, which balance a system – think of a thermostat preventing a house from getting too hot or too cold. At any time, the overall dynamic of a system depends on whether the reinforcing loops or the balancing loops have the upper hand. When the former occurs, runaway consequences develop at the level of the whole system.

Neoliberalism amounts to a runaway culture, because its two-pronged message has destabilized the sensitive balance between public and private that is required for complex human society to function and be sustainable. Neoliberalism has both promoted the sufficiency of markets and denied the legitimacy of the moderating influence of governments.

The running of this narrative for the last four decades has amounted to a prolonged discrediting of government that now denies us the remedy for problems that have arisen from excessive market primacy. We have mounting ‘public goods’ problems, but we have told ourselves that government cannot possibly be the solution. And so we are all hoping, instead, that Unilever and Tesla can solve climate change.

At the same time, having been discredited for so long, today’s governments have indeed lost much credibility and capacity to lead on public goods solutions as they might. ‘Government is the problem’ has become self-fulfilling. Government recruitment becomes more difficult – not just because pay lags behind the compensation of a privileged private sector, but for reasons of status and esteem too – ‘come work with us and be part of the problem!’ is a tough hiring pitch. Rather than create norms that cherish public service and see it paid competitively, which might attract the best of society, we have undermined these critical institutions.

Neoliberalism is a runaway feedback loop of an ideology in which large swathes of the global population are now swept up. A telling signal is that our biggest problems - global debt accumulation, wealth inequality, climate change and biodiversity loss - all exhibit runaway, vicious spiral, dynamics. We appear to be reaching a ‘blow off’ top. That matters have reached an ugly crescendo in the US first is because they have run the ‘purest’ version of the experiment, but events there do not augur well for those that have emulated the American model.

**What Hayek missed and what Ferguson and Tocqueville identified is that there is not one Road to Serfdom, but two. Turn left for serfdom or turn right for serfdom. Both roads gradually steepen down. Best, given the choice, not to venture too far down either road.**

## THE ‘COVER STORY’ FOR PRIVATE

So plain are objections that might be made against unleashed self-interest, that the elevation of ‘private’ always requires a rationale or a cover story to overcome doubts. In our era, ‘conservatives’ have led the search, as JK Galbraith expressed:

*‘The modern conservative is engaged in one of man’s oldest exercises in moral philosophy; that is, the search for a superior moral justification for selfishness.’*

## Complete markets

That justification, which Hayek effectively relied on, was the theory of ‘complete markets’. Pure hypothesis, the notion of ‘complete markets’ – literally that all things of human value can be priced and traded – offers the appealing mirage that markets can magically ‘add back up’ pursuit of private interest to allocate the finite resources of the world better than any political system can.

Bluntly, it is the theory that says markets are infallible and so government is unnecessary. It is the intellectual cornerstone of today’s market primacy and it is bogus.

Complete markets effectively launder self-interest of any of its long-noted adverse consequences. With complete markets, economists effectively declared the pendulum swing dead and irrelevant. Private could amply cover for public. Markets had it all covered. Tocqueville’s and Ferguson’s concerns could be consigned to history.

Whenever a claim is made for the superiority of market outcomes, the theory of complete markets is lurking invisibly in the background.

Of course, markets are not complete. It is a preposterous idea. I can’t buy a contract today for delivery of 6 apples in Norwich on January 10<sup>th</sup>, 2032. Nor for the day after.

Economists knew this, but they argued that markets were ‘complete enough’ to carry on as if the conclusions of complete market theory were a good guide for social arrangements. But, in the face of mounting social and environmental problems, this is evidently proving a colossal mistake to have made.

Markets are so incomplete they do not even extend to cover *most* things of human value. Estimates by Robert Costanza and colleagues show that the value of just some of the ecosystem services provided free by Planet Earth dwarf global GDP.<sup>3</sup> And that is before considering a whole range of social variables that might also be considered ‘valuable’.

The implication is deeply concerning because it means that our financial accounting, which is the ubiquitous tool with which we reconfigure society and the planet to our liking, misses more than it captures. There is literally more ‘cost’ not on a typical financial statement than on it. This is so profound a problem, we cannot even be sure that making a profit is always a net positive contribution to society! Or, equally, that economic growth is more socially beneficial than its contraction!

Trucost, the sustainable consulting firm, estimated in 2013 that large swathes of primary industry – including agriculture and energy companies – would not be profitable if they had to pay the full costs of their environmental damage.<sup>4</sup> In 2011, the leading economic journal, *American Economic Review*, published similar analysis showing that the solid waste combustion, sewage treatment and oil- and coal-fired power production industries generated air pollution damages – air pollution alone! – that were greater than their economic value added (EVA).<sup>5</sup> Hence, on a fuller accounting perspective, many industries are EVS – economic value subtracted – industries. For such industries to record a ‘positive’ profit is a social alchemy in which we magically transform pollution into profit.

If neoliberalism has been the narrative under which we have recorded mounting social and environmental problems but not seemed able to resolve them, it is because the underlying justification that private interest might adequately cover for public concern is entirely fallacious.

Yet, this is the narrative we have all been steering by, albeit there may now be stirrings of awareness where it really matters – in the business community that have been among its main promoters.

Reflecting on what has just happened in the political arena, Lloyd Blankfein, former CEO of Goldman Sachs and one of the few business executives who has previously spoken out against Trump, described the Faustian bargain the private sector has been making. He told the New York Times this weekend:

*“I think as a group, this is what was happening: For Wall Street, it was lower taxes, less regulation. Trump was delivering what ‘we’ wanted. We put a clothespin on our nose. We weren’t ignorant of the kind of risks we were taking. We repressed them.”<sup>6</sup>*

Culturally, we have made the ‘repression’ of principle easy – indeed, rewarded it. Those who have been advocating for unfettered market forces to carry the day have unwittingly be promoting the fiction that private can cover for public with no adverse consequence. We have created the structures and norms that facilitate tacit complicity in the emergence of demagogues and the accretion of public problems.

## TODAY’S PUBLIC GOODS PROBLEMS

A pendulum swing to ‘private’ inevitably sees an accumulation of problems that only ‘public’ can solve. That seems again to be the case, but the timing of all this could not be worse, because it has coincided with our discovery of public goods problems of unprecedented global scale and threat.

In recognizing the ‘Anthropocene’, we have realized we are now so large in number and so technologically powerful that we have the power to disrupt planetary cycles. Our problems of climate change and biodiversity continue to accelerate.

Seemingly in the vanguard of addressing these problems is a well-intended ESG community, trying to accelerate private solutions to public problems, consistent with contemporary norms.

But the very existence of an ESG movement is a marker of our incapacity to meet public challenges with public policy responses. The ESG community grew out of the 1990s collapse of policy as a viable option to address environmental issues, at a time when neoliberal ideas were spreading and empowering a – then environmentally ignorant – business community to thwart public action.

### **The ESG movement is a product of a culture out of balance.**

Hence, the core ESG narrative has been – *because it has had to be* – ‘win-win’: the belief that solving social and environmental problems does not conflict with, but rather enhances, profit and growth. ‘Win-win’ is so central to ESG that it has been articulated many ways: ‘profit and planet’; ‘doing well by doing good’; ‘green growth’; ‘shared value’; and more.

But ‘win-win’ is just a sub-narrative of the ‘markets are the solution, government is the problem’ meta-narrative. It promotes the idea that private action can aggregate to solve global public problems and downplays that government need be part of the solution.

It is becoming abundantly clear that ‘win-win’ will not scale to solve all our public problems. Twenty years after the ESG movement emerged, most of the social and environmental metrics it targets are still deteriorating – wealth inequality, climate change and biodiversity most conspicuously. People may argue for more patience and that ‘win-win’ is working with a lag, but our ecosystem has set deadlines with its physical biology and chemistry, which do not grant us the luxury of waiting.

At this point, those who believe that solving climate change and biodiversity will enhance aggregate economic growth and financial profits, *as currently measured*, are deluding themselves, but may have been led to this belief because our norms encouraged it.

**‘Win-win’ is a comforting narrative of complicity. It is wishful thinking, or ‘greenwish’.<sup>7</sup> It denies any tension between profit and planet, because our ‘anti-public’ times have demanded it.**

It is the rhetoric we use to pretend to ourselves that piecemeal private efforts – however earnest – can magically add up to solve public scale problems. Even if there are many specific ‘win-win’ projects available, ‘win-win’ cannot cover all that needs to happen. And yet, its appealing message, enthusiastically spread, now hazardously diverts attention, energy and resources from the more costly work that urgently needs to be – *and can be* – done.

## **What to do?**

At the highest level, our sustainability predicament has a both-and structure. We are realizing both that we have neglected the social and ecological foundations of human civilization and that we have undermined the public mechanisms best able to remedy the neglect.

Two things the ESG community might do are (i) seek to rebalance public and private in modern culture and (ii) front up to the reality that addressing our sustainability challenges will be costly.

### **(i) Rebalance public and private**

Recognizing that ESG was born out of an unbalanced culture, the community should support the rebuilding of a healthier public-private balance as a requisite for a sustainable civilization. The ESG community could help revive and re-legitimize public institutions and spread the wisdom that governments provide a culturally beneficial complement to markets, by *modulating*, not *amplifying*, market forces.

An immediate, specific action the ESG community might take is to turn the spontaneous halts on corporate political donations into a permanent requirement for a sustainable business. The norm should be that ‘a sustainable company never makes political contributions’.

This would crystallize that corporate political donations have been too egregious a loophole in our economic system, just as players bribing referees would be. They constitute part of what I’ve previously described as ‘Friedman’s Feedback Loop’ – the positive feedback loop in which corporate profits fund lobbying for laxer regulations begets more profit begets more lobbying etc.<sup>8</sup> It has been one of the key runaway feedback loops within the larger destabilizing neoliberal narrative.

Responsible investors should seize the moment and request companies write a ‘no political donations’ commitment into their values statements. (Of course, business executives should remain free to give as they want, as individuals, but that is an entirely different matter.)

### **(ii) Get real about costs of public problems**

In the interim, businesses remain a critical repository of functional organization within society, but the leadership we now need from them is not the self-interested leadership they are normalized and incentivized to, but the self-abnegating leadership that is often required at a time of civil and moral crisis. Through history, genuine leadership has always been about serving interests beyond your own. Pleading the case for individualism and private interest is always the easier brief. The real tests of leadership lie in pushing against the easy default of self-interest.

Simply put, if companies are serious about becoming sustainable they will have to take actions together that will compromise their profitability, but which constitute the only feasible way we can develop a truly sustainable culture.

Take carbon pricing as a headline issue on which we need urgent action.

Enough with the fiction that measuring and reporting carbon emissions or making twenty year commitments is anything like as meaningful as putting a real price on emissions today. Serious companies should stop wasting time and effort chasing Scope 2 or Scope 3 emissions through the labyrinth of the global economy and instead start demanding carbon taxes, which will do that ‘track and trace’ work autonomously, and which will actually put a real price on emissions.

Similarly, we need companies to stop pretending that their own piecemeal efforts with employees – however well intended – can remedy the vast inequalities that have arisen in this ‘winner takes all’ era. Only more meaningful taxation and redistribution can address the accumulated inequities of 40 years. Demagogues feed off social inequality and dislocation and the legions of aggrieved and disaffected that result. Rebalancing of wealth and opportunity forestalls their emergence.

The fiction at the heart of the ESG movement is that it is appropriate and feasible for private companies to be leading on public goods problems of now global scale and existential threat. We need genuine ESG leaders to call time on this narrative, which is based on the erroneous assumption that ‘public’ is simply the sum of ‘all private’.

Will that hurt corporate profits? Almost certainly. But if the coin has not yet dropped that we are living in a time when we have to place principle ahead of profit, well, you haven’t been watching.

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