

[Why Socialism?](#) by Albert Einstein

This essay was originally published in the first issue of *Monthly Review* (May 1949).

[I've added links, some to within the document and some external, to my website and other sources.]

Einstein expresses important concerns about capitalism and socialism. My comments follow.

[Social and Ethical Ends](#)
[Dimensions of Reality](#)
[The Crisis of Our Time](#)
[The Individual vs. the Collective](#)
[Capitalism, Socialism, & Dictatorship](#)
[The Rules of the Game](#)

Is it advisable for one who is not an expert on economic and social issues to express views on the subject of socialism? I believe for a number of reasons that it is.

Let us first consider the question from the point of view of scientific knowledge. It might appear that there are no essential methodological differences between astronomy and economics: scientists in both fields attempt to discover laws of general acceptability for a circumscribed group of phenomena in order to make the interconnection of these phenomena as clearly understandable as possible. But in reality such methodological differences do exist. The discovery of general laws in the field of economics is made difficult by the circumstance that observed economic phenomena are often affected by many factors which are very hard to evaluate separately. In addition, the experience which has accumulated since the beginning of the so-called civilized period of human history has—as is well known—been largely influenced and limited by causes which are by no means exclusively economic in nature. For example, most of the major states of history owed their existence to conquest. The conquering peoples established themselves, legally and economically, as the privileged class of the conquered country. They seized for themselves a monopoly of the land ownership and appointed a priesthood from among their own ranks. The priests, in control of education, made the class division of society into a permanent institution and created a system of values by which the people were thenceforth, to a large extent unconsciously, guided in their social behavior.

But historic tradition is, so to speak, of yesterday; nowhere have we really overcome what Thorstein Veblen called "the predatory phase" of human development. The observable economic facts belong to that phase and even such laws as we can derive from them are not applicable to other phases. Since the real purpose of socialism is precisely to overcome and advance beyond the predatory phase of human

development, economic science in its present state can throw little light on the socialist society of the future.

Second, socialism is directed towards a [social-ethical end](#). Science, however, cannot create ends and, even less, instill them in human beings; science, at most, can supply the means by which to attain certain ends. But the ends themselves are conceived by personalities with lofty ethical ideals and—if these ends are not stillborn, but vital and vigorous—are adopted and carried forward by those many human beings who, half unconsciously, determine the slow evolution of society.

For these reasons, we should be on our guard not to overestimate science and scientific methods when it is a question of human problems; and we should not assume that experts are the only ones who have a right to express themselves on questions affecting the organization of society.

Innumerable voices have been asserting for some time now that human society is passing through a crisis, that its stability has been gravely shattered. It is characteristic of such a situation that individuals feel indifferent or even hostile toward the group, small or large, to which they belong. In order to illustrate my meaning, let me record here a personal experience. I recently discussed with an intelligent and well-disposed man the threat of another war, which in my opinion would seriously endanger the existence of mankind, and I remarked that only a supra-national organization would offer protection from that danger. Thereupon my visitor, very calmly and coolly, said to me: "Why are you so deeply opposed to the disappearance of the human race?"

I am sure that as little as a century ago no one would have so lightly made a statement of this kind. It is the statement of a man who has striven in vain to attain an equilibrium within himself and has more or less lost hope of succeeding. It is the expression of a painful solitude and isolation from which so many people are suffering in these days. What is the cause? Is there a way out?

It is easy to raise such questions, but difficult to answer them with any degree of assurance. I must try, however, as best I can, although I am very conscious of the fact that our feelings and strivings are often contradictory and obscure and that they cannot be expressed in easy and simple formulas.

Man is, at one and the same time, a [solitary being and a social being](#). As a solitary being, he attempts to protect his own existence and that of those who are closest to him, to satisfy his personal desires, and to develop his innate abilities. As a social being, he seeks to gain the recognition and affection of his fellow human beings,

to share in their pleasures, to comfort them in their sorrows, and to improve their conditions of life. Only the existence of these varied, frequently conflicting, strivings accounts for the special character of a man, and their specific combination determines the extent to which an individual can achieve an inner equilibrium and can contribute to the well-being of society. It is quite possible that the relative strength of these two drives is, in the main, fixed by inheritance. But the personality that finally emerges is largely formed by the environment in which a man happens to find himself during his development, by the structure of the society in which he grows up, by the tradition of that society, and by its appraisal of particular types of behavior. The abstract concept "society" means to the individual human being the sum total of his direct and indirect relations to his contemporaries and to all the people of earlier generations. The individual is able to think, feel, strive, and work by himself; but he depends so much upon society—in his physical, intellectual, and emotional existence—that it is impossible to think of him, or to understand him, outside the framework of society. It is "society" which provides man with food, clothing, a home, the tools of work, language, the forms of thought, and most of the content of thought; his life is made possible through the labor and the accomplishments of the many millions past and present who are all hidden behind the small word "society."

It is evident, therefore, that the dependence of the individual upon society is a fact of nature which cannot be abolished – just as in the case of ants and bees. However, while the whole life process of ants and bees is fixed down to the smallest detail by rigid, hereditary instincts, the social pattern and interrelationships of human beings are very variable and susceptible to change. [\[back\]](#) Memory, the capacity to make new combinations, the gift of oral communication have made possible developments among human being which are not dictated by biological necessities. Such developments manifest themselves in traditions, institutions, and organizations; in literature; in scientific and engineering accomplishments; in works of art. This explains how it happens that, in a certain sense, [man can influence his life through his own conduct](#), and that in this process conscious thinking and wanting can play a part.

Man acquires at birth, through heredity, a biological constitution which we must consider fixed and unalterable, including the natural urges which are characteristic of the human species. In addition, during his lifetime, he acquires a cultural constitution which he adopts from society through communication and through many other types of influences. It is this

cultural constitution which, with the passage of time, is subject to change and which determines to a very large extent the relationship between the individual and society. Modern anthropology has taught us, through comparative investigation of so-called primitive cultures, that the social behavior of human beings may differ greatly, depending upon prevailing cultural patterns and the types of organization which predominate in society. It is on this that those who are striving to improve the lot of man may ground their hopes: human beings are not condemned, because of their biological constitution, to annihilate each other or to be at the mercy of a cruel, self-inflicted fate.

If we ask ourselves how the structure of society and the cultural attitude of man should be changed in order to make human life as satisfying as possible, we should constantly be conscious of the fact that there are certain conditions which we are unable to modify. As mentioned before, the biological nature of man is, for all practical purposes, not subject to change. Furthermore, technological and demographic developments of the last few centuries have created conditions which are here to stay. In relatively densely settled populations with the goods which are indispensable to their continued existence, an extreme division of labor and a highly-centralized productive apparatus are absolutely necessary. The time—which, looking back, seems so idyllic—is gone forever when individuals or relatively small groups could be completely self-sufficient. It is only a slight exaggeration to say that mankind constitutes even now a planetary community of production and consumption.

I have now reached the point where I may indicate briefly what to me constitutes the essence of [the crisis of our time](#). It concerns the relationship of the individual to society. The individual has become more conscious than ever of his dependence upon society. But he does not experience this dependence as a positive asset, as an organic tie, as a protective force, but rather as a threat to his natural rights, or even to his economic existence. Moreover, his position in society is such that the egotistical drives of his make-up are constantly being accentuated, while his social drives, which are by nature weaker, progressively deteriorate. All human beings, whatever their position in society, are suffering from this process of deterioration. Unknowingly prisoners of their own egotism, they feel insecure, lonely, and deprived of the naive, simple, and unsophisticated enjoyment of life. Man can find meaning in life, short and perilous as it is, only through devoting himself to society.

The [economic anarchy of capitalist society](#) as it exists today is, in my opinion, [the real source of the evil](#). We

see before us a huge community of producers the members of which are unceasingly striving to deprive each other of the fruits of their collective labor – not by force, but on the whole in faithful compliance with legally established rules. In this respect, it is important to realize that the means of production – that is to say, the entire productive capacity that is needed for producing consumer goods as well as additional capital goods – may legally be, and for the most part are, the private property of individuals.

For the sake of simplicity, in the discussion that follows I shall call “workers” all those who do not share in the ownership of the means of production – although this does not quite correspond to the customary use of the term. The owner of the means of production is in a position to purchase the labor power of the worker. By using the means of production, the worker produces new goods which become the property of the capitalist. The essential point about this process is the relation between what the worker produces and what he is paid, both measured in terms of real value. Insofar as the labor contract is “free,” what the worker receives is determined not by the real value of the goods he produces, but by his minimum needs and by the capitalists’ requirements for labor power in relation to the number of workers competing for jobs. It is important to understand that even in theory the payment of the worker is not determined by the value of his product.

Private capital tends to become concentrated in few hands, partly because of competition among the capitalists, and partly because technological development and the increasing division of labor encourage the formation of larger units of production at the expense of smaller ones. The result of these developments is [an oligarchy of private capital the enormous power](#) of which [cannot be effectively checked](#) even by a democratically organized political society. This is true since the members of legislative bodies are selected by political parties, largely financed or otherwise influenced by private capitalists who, for all practical purposes, separate the electorate from the legislature. The consequence is that the representatives of the people do not in fact sufficiently protect the interests of the underprivileged sections of the population. Moreover, under existing conditions, private capitalists inevitably control, directly or indirectly, the main sources of information (press, radio, education). It is thus extremely difficult, and indeed in most cases quite impossible, for the individual citizen to come to objective conclusions and to make intelligent use of his political rights.

The situation prevailing in an economy based on the private ownership of capital is thus characterized by two main principles: first, means of production (capital) are privately owned and the owners dispose of them as they see fit; second, the labor contract is free. Of course, there is no such thing as a pure capitalist society in this sense. In particular, it should be noted that the workers, through long and bitter political struggles, have succeeded in securing a somewhat improved form of the “free labor contract” for certain categories of workers. But taken as a whole, the present day economy does not differ much from “pure” capitalism.

Production is carried on for profit, not for use. There is no provision that all those able and willing to work will always be in a position to find employment; an [“army of unemployed” almost always exists](#). The [worker is constantly in fear of losing his job](#). Since unemployed and poorly paid workers do not provide a profitable market, the production of consumers’ goods is restricted, and great hardship is the consequence. Technological progress frequently results in more unemployment rather than in an easing of the burden of work for all. The profit motive, in conjunction with competition among capitalists, is responsible for an instability in the accumulation and utilization of capital which leads to increasingly severe depressions. Unlimited competition leads to a huge waste of labor, and to that crippling of the social consciousness of individuals which I mentioned before.

This crippling of individuals I consider the worst [evil of capitalism](#). Our whole educational system suffers from this evil. An exaggerated competitive attitude is inculcated into the student, who is trained to worship acquisitive success as a preparation for his future career.

I am convinced there is only one way to eliminate these grave evils, namely through the establishment of a socialist economy, accompanied by an educational system which would be oriented toward social goals. In such an economy, the means of production are owned by society itself and are utilized in a planned fashion. A planned economy, which adjusts production to the needs of the community, would distribute the work to be done among all those able to work and would guarantee a livelihood to every man, woman, and child. The education of the individual, in addition to promoting his own innate abilities, would attempt to develop in him a sense of responsibility for his fellow men in place of the glorification of power and success in our present society.

Nevertheless, it is necessary to remember that a planned economy is not yet socialism. A planned economy as such may be accompanied by the complete

enslavement of the individual. The achievement of socialism requires the solution of some extremely difficult socio-political problems: how is it possible, in view of the far-reaching centralization of political and economic power, to prevent bureaucracy from becoming all-powerful and overweening? How can the rights of the individual be protected and therewith a democratic counterweight to the power of bureaucracy

be assured?

Clarity about the aims and problems of socialism is of greatest significance in our age of transition. Since, under present circumstances, free and unhindered discussion of these problems has come under a powerful taboo, I consider the foundation of this magazine to be an important public service.

Comments on Einstein's Essay on "Why Socialism?"

Social and ethical ends

As Einstein observes, ends are socially created by humans, not by the laws of science or by what's in some sense "natural."

For example, just because the "[path dependence](#)" dynamic (called the "Success to the Successful" archetype in systems thinking) leads to the richer getting richer and the poor getting poorer – even when everyone starts with equal resources and abilities – does not mean that society must necessarily operate according to this dynamic.

Conservatives maintain that because this is "natural," that society should run this way ... especially because [government always makes things worse](#). This isn't true – it's [16th century thinking](#) – but it's a convincing argument because designing effective public policy is so difficult.

Another example relates to corporations, it's easiest – even recommended – to "pick the low-hanging fruit," to work on the improvement efforts that most readily yield benefits. This is OK as long as organizational imbalances do not occur. That is, manufacturing processes are much easier to improve than engineering processes. This can lead to a more efficient factory and overloading not-similarly-improved engineering functions that are pressed to "fill the factory." (An example of how this nearly led to the failure of Analog Devices is described at the "path dependence" link.)

Path dependence operates in organizations as well. One way is known as the "[halo effect](#)." Once one gets a reputation as being a great performer, it's much easier to maintain that reputation. On the other hand, it's extremely difficult to overcome a bad reputation once it's established (the "devil effect").

Again, just because such dynamics are natural does not mean we should judge individuals in this way, run corporations in this way, or have societies operate this way. As Einstein observes, "[the social pattern and interrelationships of human beings are very variable and susceptible to change](#)."

Dimensions of Reality

Einstein wrote,

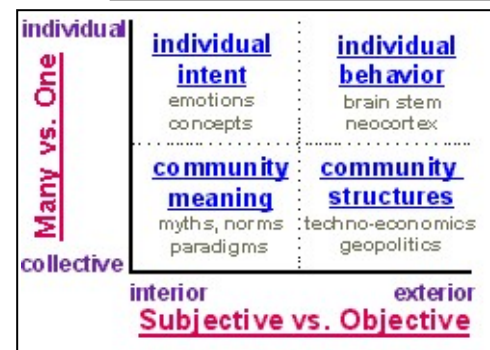
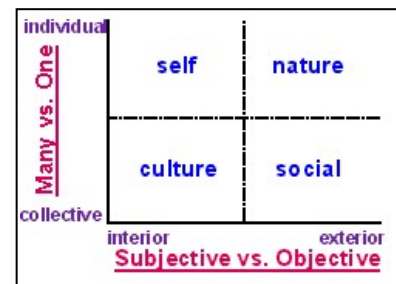
Man is, at one and the same time, a solitary being and a social being. ... The abstract concept "society" means to the individual human being the sum total of his direct and indirect relations to his contemporaries and to all the people of earlier generations.

In *A Brief History of Everything* Ken Wilber distinguishes between two concepts that Einstein combined into "society." Wilber distinguishes between the "culture" and "social" dimensions of reality.

Culture is the *interior dimension* of the collective, our shared cultural beliefs and norms. As Einstein notes, "the social behavior of human beings may differ greatly, depending upon prevailing cultural patterns" Cultural norms are only indirectly observable from the actions of groups and individuals.

Social is the *exterior dimension* of the collective, our societal laws and systems that support society. They are directly observable.

Ken Wilber maintains that there cannot be advancement in one quadrant without somewhat parallel advancement in all quadrants. For example, individuals can only advance so far spiritually without accompanying collective advancement.



[Reality is both individually and collectively created](#). If we think individual action is sufficient and do not act collectively, then we are subject to the [Fallacy of Composition](#): *we act as if what is true for a part is true for the whole*. Of course, this is not true, but too many believe it.

When we fall prey to this fallacy, individually logical actions are collectively irrational. Society fails even when everyone does the "logical thing." Doing so makes us, as Einstein puts it, "social cripples."

The crisis of our time: The relationship of the individual to society

Our society has become one of radical individualism. Libertarians and economic conservatives even maintain that *there is no such thing as society or a collective*. They maintain that there are only individuals who sometimes make contracts with others to cooperate, which it's government's role to enforce; but other than that there are only individuals pursuing their individual interests.

So to them there is no collective or social reality; only individuals exist. Their belief is that "Individuals find their own solutions, negotiate their own agreements and act on their own volition."

Those who believe there are only individuals and there is no such thing as society are, indeed, "social cripples" who, even worse, cripple society, leading to both individual and collective failure.

On such views and my response, see [There's No Collective or Social Reality](#) and [Problems: A Society's or An Individual's?](#)

The Individual vs. the Collective

This battle between the individual and the collective has been, and remains, one of the [fundamental sources of conflict](#) that has plagued mankind for millennia.

Only by understanding that we are both can we balance between the two. It is a paradox that everything seems separate, yet everything is connected. In *7 Paths to God* Joan Borysenko notes about ...

... the face of the Mystery, the great paradox. Albert Einstein once remarked that the illusion that we are separate is an optical delusion of consciousness. Indeed, in holy moments we are aware that there is only One Mind in the universe, a Mind present in every thing and every one. (p. xiv)

... the true mystic ... perceives the larger Whole that is greater than the sum of its parts. People at this stage may act in strange and unconventional ways,

and are often considered subversive of religious structures. (p. 110)

I certainly don't claim to be a mystic, but the reality that there is a [Primacy of the Whole](#) is fundamental to systems thinking. It is a fundamental truth. Everything is connected and the influence of those connections most often overrides individual action.

This is heresy to the many who believe that all it takes to achieve the best possible outcomes is for individuals to get their own act together.

Libertarians believe this on economics. This belief, along with policies and actions based on it ("free market" and "free trade" policies ... an unregulated market and unregulated trade are actually "lawless"¹), are destroying our society and our nation.

Some religions believe that if each individual gets his/her own act together spiritually, then everything will work out for the whole ... the "[hundredth monkey](#)" phenomenon will take over and everyone will get it. That's magical thinking and it's also [not true](#) (uh-oh ... is that [heresy](#)?).

Such "libertarian spirituality" is an oxymoron, just as "Holy War" is an oxymoron. Why? Libertarians believe only in the individual, but spiritual wisdom knows that, most fundamentally, "We are One." "Holy" knows we are whole, but "War" requires that we see each other as separate.

That the growth of ideas – whether it be the 100th monkey or Christianity – could seem miraculous is not surprising if one understands exponential growth.

There's a phenomenon related to the [Product Life Cycle](#) where acceptance of a product (or an idea or a meme) starts out slowly at first. Then favorable word-of-mouth feedback takes over to produce exponential growth. Because exponential growth is so rapid, it can appear to be miraculous. Indeed the growth of Christianity, which many believe was miraculous, fits this model.²

It is true that through self-confidence and perseverance (obtained by faith, tithing, belief in God's Grace, or whatever) many can find financial abundance through that better job or some other source.

¹ There's a hypocrisy, though, about "free trade." If it's really "free", that is, unregulated, why is it that "free trade" agreements are 1000 pages instead of two pages?

² *The Rise of Christianity* by Rodney Stark, p. 6: "... 40 percent per decade or (3.42 percent per year) seems the most plausible estimate of the rate at which Christianity actually grew during the first several centuries."

Unfortunately, there are structures in society that prevent *everyone* from doing that. This is described in detail at [There's no 'free market' for Labor](#). There is, in fact, on the order of [12 percent unemployment](#), not the official 4.5 to 5 percent. What this means is that over one in ten people who need a job can't get one. [The way the Federal Reserve operates](#) (all else being equal) is that, if unemployment is too low (in its view), it will raise interest rates and/or contract the money supply to slow the economy to prevent what it fears might cause a wage-price spiral of inflation.

Therefore, the economy is regulated on a macroeconomic basis. While some may find better jobs or create a new job, only so many jobs are allowed.

It's like a game of musical chairs. Belief and faith says someone can create another chair (another job). This is true. But there's a higher structure at work that destroys another person's chair to assure there are only so many chairs.

One comment I got about this was, "Well, let's just look at us (this small group in this class)." The problem is that, if there's a vision that we want "A world that works for everyone," then we can't just "look at us." We must look at the whole. Those who realize that "We are One" and know that whatever we and society do to others, we do to ourselves. *Everything is connected*. Everything. We ignore that at our individual and collective peril.

The fact that we are individuals existing intimately in a collective has enormous implications. It requires we balance between the reality that we are both individuals *and* part of a collective.

Scott Peck observes in *The Road Less Traveled* that "balancing" is the most difficult of disciplines. He defines discipline as "a system of techniques for dealing constructively with the pain of problem-solving – instead of avoiding that pain – in such a way that all of life's problems can be solved."³

Good luck with that. Nevertheless, the disciplines he describes are necessary if we are even to have a chance.

I've been asked, if you don't believe that individual "knowing" is enough, "Why do you go to church anyway?" My response is that, while there are many reasons, there is no need to reject part of the truth because that's not the whole truth.

That very question implies that it's [heresy](#) to believe there's a larger, more encompassing truth.

³ Scott Peck's disciplines are described in "Escaping The Crisis Syndrome" at [Addiction and The Crisis Syndrome](#).

Fundamental change requires both individual *and* collective action. Get used to it.

Any belief system, society, religion, or church that ignores the need for collective action to promote policies to create a "world that works for everyone" makes itself either irrelevant ... or destructive as it ignores that what we do to some of us, we do to ourselves ... that "everything's connected" thing.

Capitalism, Socialism, and Dictatorship

Einstein notes we need "an educational system which would be oriented toward social goals [in which] the education of the individual, in addition to promoting his own innate abilities, would attempt to develop in him a sense of responsibility for his fellow men in place of the glorification of power and success in our present society."

However, what he wrote here seems to go too far:

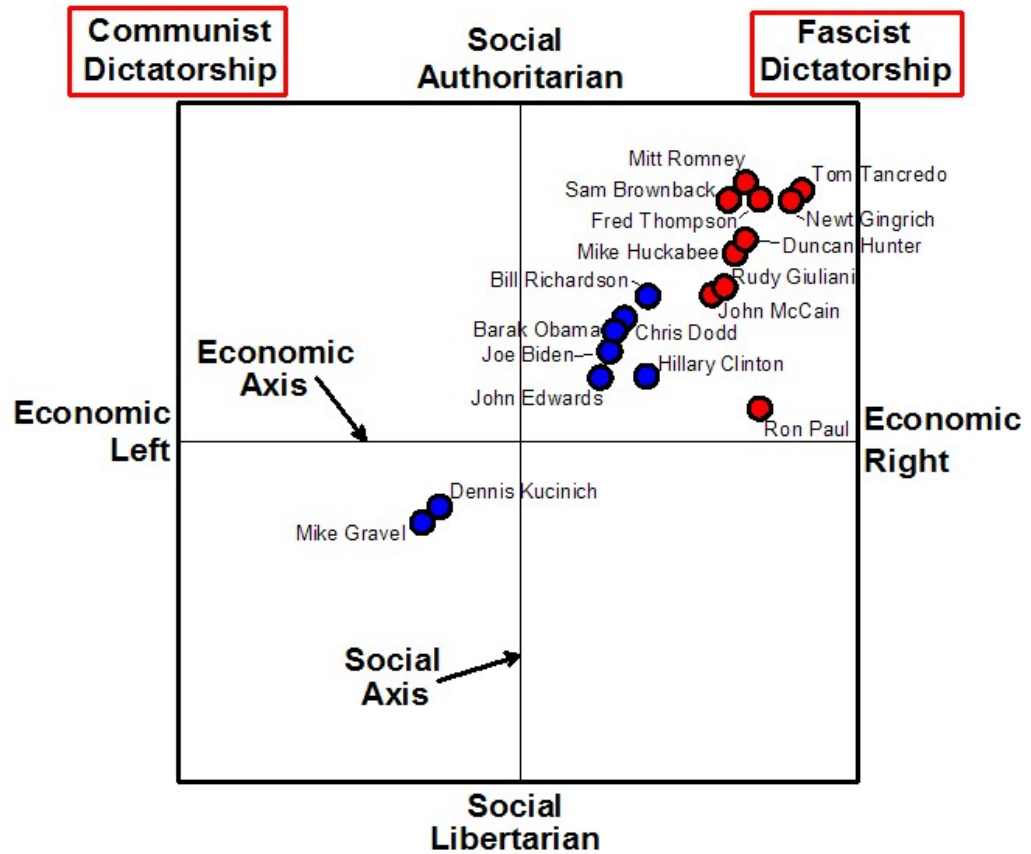
... there is only one way to eliminate these grave evils, namely through the establishment of a socialist economy, accompanied by an educational system which would be oriented to-ward social goals. ... a planned economy, which adjusts production to the needs of the community."

It's not that planned economies cannot succeed (after all, huge multinational corporations are planned economies). In *Bad Samaritans, The Myth of Free Trade and the Secret History of Capitalism*, Ha-Joon Chang describes how Korea, the U.S., and other developed countries advanced by government intervention and significant central planning. They would not have advanced without it. Indeed, the U.S. today is failing because of a lack of government protections for U.S. companies that are being overrun by "free trade." U.S. technology has developed to the extent it has by virtue of such protections ... we'd have remained an agricultural nation if Great Britain had had its way.

Some things must be government planned (for reasons described below), but not all, because it's all just too complicated. My other objection to a totally-planned economy is that Einstein was exactly correct in being concerned about

... extremely difficult socio-political problems: how is it possible, in view of the far-reaching centralization of political and economic power, to prevent bureaucracy from becoming all-powerful and overweening? How can the rights of the individual be protected and therewith a democratic counterweight to the power of bureaucracy be assured?"

At either end of the economic [spectrum](#) we are vulnerable to authoritarian dictatorship. We are very close to that, if not at that, on the far "right" extreme. Note almost all Republican candidates are greatly toward the extreme right-hand corner. Democrats are only somewhat less so. There is virtually no "left" left in America, which makes the liberal center look like the "left." This has led to a dysfunctional America, politically, economically, and socially.



Bush has put [everything in place to establish a police state](#) with his [Presidential Directives](#); in many ways we already live in one. Many, like me, do not believe the last two presidential elections were valid, we do not believe that a privatized voting process can produce democratic results, and we do not believe that the corporate media currently fills the role defined in the Constitution of the United States to provide transparency of government to its citizens in a diverse manner.

My definition of "liberal" is right in the middle along both axes ... the liberal middle. That could be called either democratic socialism or democratic free enterprise (that is, free enterprise, rather than laissez-faire capitalism).

Both need to be regulated (described in detail in [Explaining Liberal Principles](#)). Lacking regulation, what we have is not a "free market," but a "lawless market." Some reasons for regulation:

- Eliminate negative externalities. This is the "socialism of the right" that redistributes costs of doing business onto the public. Examples of this redistribution are:
 - pollution
 - injuries to workers from inadequate labor rights

- taxes to support infrastructure that subsidizes growth ... or alternatively being stuck in traffic by overloading existing infrastructure.
- Eliminate the effects of [adverse selection](#) because of asymmetrical information. Examples are
 - The used car market. Lemon laws require disclosure of used car defects.
 - Health insurance. Without universal coverage the insurance market collapses as the healthiest drop out, costs increase, and the healthiest again drop out, and the feedback continues.
- Take advantage of positive externalities
 - Education of individuals benefits those who work with them and all of society.
 - Health care benefits everyone. When people aren't sick companies are more efficient, those who work with them are more efficient, and people are less likely to catch communicable diseases.
- Do what's needed for the long term.
 - The tyranny of Net Present Value calculations dictates that for the most part private companies to not invest if the returns are largely 5 or more years out. Such future returns are devalued by NPV calculations. Only government invests for the long term. In *Bad Samaritans* Chang points out that, subject to the "free

market" and without government protections, Toyota would never have been able to develop the Lexus.

- Supplying power and communication infrastructure.
- Promote competition by prohibiting monopolies and oligopolies.
 - To reduce barriers to entry for innovative new companies.
 - To prevent too few major oil companies (there are only 5), which has resulted in price fixing and manipulations of supply (e.g., Enron re CA power, oil refinery capacity now)
 - To prevent too few major telecommunications companies.
 - To prevent media consolidation and provide diversity of political and economic views.

These manipulations indicate the means of production of critical capabilities and resources should be owned by society, not privatized. This would allow them to be used for the long term interests of the nation as a whole, rather than for short-term profit maximization.

Another reason for government involvement is that infant industries need protection if the nation is to evolve up the technological ladder.⁴

The Rules of the Game

In his essay, Einstein refers to what he calls the "economic anarchy of capitalist society."

Paul Krugman describes in [For Richer](#) the rise of economic policy that favors the wealthy over the middle class and the poor.

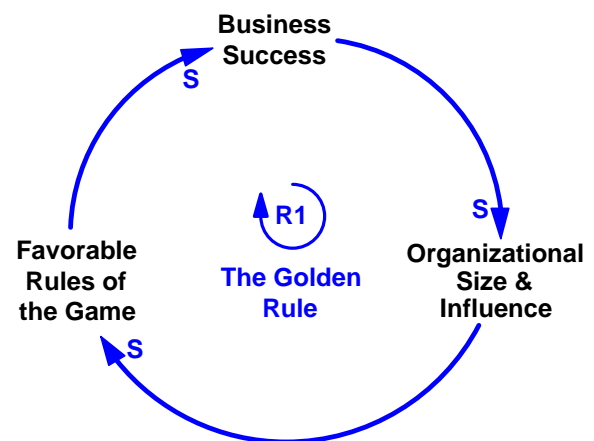
This obviously raises the possibility of a self-reinforcing process. As the gap between the rich and the rest of the population grows, economic policy increasingly caters to the interests of the elite ...

In *Business Dynamics*, John Sterman describes this self-reinforcing feedback process as "The Rules of the Game."⁵

⁴ "Comparative advantage" – it doesn't apply (the conditions aren't met ... explained at [The Trade Deficit and the Fallacy of Composition](#) page) ... even when it does apply, it's OK for nations that want to maintain the economic status quo, but not if they want their economies to evolve (explained in *Bad Samaritans, The Myth of Free Trade and the Secret History of Capitalism*).

⁵ John D. Sterman, *Business Dynamics: Systems Thinking and Modeling for a Complex World*, Irwin McGraw-Hill, 2000, p. 380. The "S"s on the links in the diagram represent

The larger and more successful an organization, the more it can influence the institutional and political context in which it operates. Large organizations can change the rules of the game in their favor, leading to still more success-and more power. [The Figure below] shows the resulting golden rule loop [R1]. The golden rule loop manifests in many forms. Through campaign contributions and lobbying, large firms and their trade associations can shape legislation and public policy to give them favorable tax treatment, subsidies for their activities, protection for their markets, price guarantees, and exemptions from liability. Through overlapping boards, the revolving door between industry and government, and control of media outlets, influential and powerful organizations gain even more influence and power. In nations without a tradition of democratic government, these loops lead to self-perpetuating oligarchies where a tightly knit elite controls a huge share of the nation's wealth and income while the vast majority of people remain impoverished (e.g., the Philippines under Marcos, Indonesia under Suharto, and countless others). The elite further consolidates its control by subsidizing the military and secret police and buying high-tech weaponry and technical assistance from the developed world to keep the restive masses in check. Even in nations with strong democratic traditions these positive loops can overwhelm the checks and balances designed to ensure government of, by, and for the people.



**The Golden Rule:
Whoever has the gold makes the rules.**

changes in the "same" direction, i.e., more "Favorable Rules of the Game" gives more "Business Success."