



THE TYRANNY OF DEAD IDEAS

LETTING GO OF THE OLD WAYS OF THINKING
TO UNLEASH A NEW PROSPERITY

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INTRODUCTION

TRAPPED

Three facts are now poised to shape our economic life for a generation. First, thanks to global competition and rapid technological change, America's economy is about to face its most severe test in nearly a century. Second, our political and business leaders are doing next to nothing to prepare us to cope with what lies ahead. And third, the reason for this inaction is that our entire economic and political culture remains in thrall to a set of "Dead Ideas" about how a modern economy should work. This book is about the threat that individuals, companies, and the country face from *the things we think we know*, and about the new (and surprising) ways of thinking destined to replace these Dead Ideas so that America will continue to prosper.

The next decade will bring a collision of forces that threaten to disrupt U.S. society, sink the middle class, and call into question the political and business arrangements on which our prosperity and stability have rested for decades. These perils have little to do with the housing-related financial crisis that gripped America in the fall of 2008; in fact,

the need to steer our way through this near-term credit crunch now masks longer-term economic challenges that are far more consequential. The stakes couldn't be higher: if America doesn't decisively manage these tides of change, we'll face a backlash against our economic model—which, for all its flaws, has produced more betterment for more people than any other system in human history. If this backlash proves contagious, and other advanced nations lose faith in capitalism's ability to improve the lives of ordinary people, the rich world's efforts to protect its citizens from economic change will doom the developing world to dollar-a-day poverty.

The good news is that there are ways to avert this dark scenario and to flourish. The trouble is we're not doing what we need to because of the Tyranny of Dead Ideas. By this I mean the tacit assumptions and ingrained instincts broadly shared by business executives, professionals, policy makers, media observers, and other opinion leaders regarding the way a wealthy, advanced economy like the United States should work. While current thinking about the American economy is hardly monolithic, the individuals who occupy its most influential positions subscribe to certain key premises:

- our children will earn more than we do
- free trade is “good” no matter how many people it hurts
- employers should play a central role in the provision of health coverage
- taxes hurt the economy
- “local control” of schools is essential
- people tend to end up, in economic terms, where they deserve to

These axioms have percolated through the culture for decades, becoming second nature to many of us. They determine which paths we consider, which large questions we view as settled, which possibilities we allow ourselves to imagine. And therein lies the dilemma: from the halls of government to the executive suite,

from the corner store to the factory floor, Americans are in the grip of a set of ideas that are not only dubious or dead wrong—they're on a collision course with social and economic developments that are now irreversible.

As these new realities crash against what people believe, a strange intellectual chasm is revealed. It's not just ordinary people who are disoriented. The stewards of our economy themselves are lost, at least to judge from the bizarre reasoning on display in exalted precincts. Consider:

- CEOs routinely bemoan skyrocketing health care costs, saying they give foreign companies a competitive edge because governments abroad pick up these bills. Yet in the next breath most executives insist that America's government should not play a bigger role in bearing this burden. *Who else do they think is available?*
- Politicians and business leaders say we should cut taxes for most (some would say all) Americans to boost the economy. Yet America already has \$40 trillion in unfunded promises shortly coming due in Social Security, Medicare, and other programs serving senior citizens—and that's before we toss in the costs of rescuing America's banking system, not to mention assorted sensible blueprints to insure the uninsured, develop clean energy, rebuild roads and bridges, extend preschool, and more. *Has anyone noticed that these numbers don't come close to adding up?*
- Everyone agrees that education is the key to improving future living standards in a fiercely competitive global economy, and that we need to lift all children, not just the most talented, to higher standards of learning and achievement. Yet in the 2008 presidential campaign, not a single major-party candidate questioned our shockingly inequitable system of school finance, which dooms schools in poor neighborhoods in ways no other

advanced nation tolerates. *How are 10 million poor American children supposed to compete?*

- Top economists in both political parties perennially assure us that free trade is “good for the country,” because the benefits to some Americans outweigh the losses suffered by others due to foreign competition. *But wait: Who put economists in charge of weighing the interests of one set of Americans against another?*

As puzzles and contradictions like these ricochet across boardrooms, union offices, town hall meetings, and kitchen tables, the questions ask themselves. Why are business leaders afraid or unwilling to say that we need government to play a bigger role in health care? How can top officials and their advisers call constantly for tax cuts when trillions in unpaid bills are coming due? Why do politicians pledge to “leave no child behind” while overseeing public school systems that systematically assign the worst teachers and most run-down facilities to the poor children who need great schools the most? Why do free trade’s losers get only lip service even from those elected representatives who say that workers are getting the shaft?

The best explanation is not ultimately cynicism, selfishness, or indifference, nor is it really an inability to perceive and act in one’s own long-term self-interest. No, the deeper ailment afflicting today’s confused capitalist is intellectual inertia. In every era, people grow comfortable with settled ideas about the way the world works. It takes an extraordinary shock to expose the conventional wisdom as obsolete, and to open people’s minds to a new vision of what is possible and what is necessary. Yet eventually a point is reached when what was once deemed unthinkable comes to seem inevitable. The climate of opinion is transformed by events. It happened in the Great Depression, when mass unemployment and hardship swept away long-standing taboos against government intervention in the economy. It happened during the civil rights movement, when

televised horrors outraged the nation and brought a convulsion that ended legal discrimination based on race. It happened in the 1970s, when recession, oil shocks, and inflation mixed with the sense that welfare programs had spun out of control to bring a new consensus to renew capitalism's "animal spirits" via lower tax rates. But the forces of the twenty-first-century global economy, powerful as they are, haven't yet proved strong enough to topple the unquestioned ideas that continue to shape American economic life—ideas about the nature of economic progress, the role of the federal government and the corporation, and the best way to balance the risks capitalism brings with the security people seek. For now, in short, America's economic future is at risk because of the Tyranny of Dead Ideas.

I've seen the distorting influence of these ideas from the inside. As a consultant to major companies, I work with top executives across corporate America, and I have heard the doubts and anxieties they bring to such questions. I also know they're too busy running their businesses in the face of unprecedented global pressures to have "connected the dots" on all this. As a government official, I saw how ambition and fear shape political behavior and breed timid thinking unequal to our challenges. As a journalist, I've spent years moving among the voices on all sides of these debates; I've also seen how hard it is for the media to address these questions without resorting to caricatures that mask more than they explain. Together these experiences have given me multiple angles of vision with which to put the American economic mind "on the couch." The struggle to adapt to globalization is poised to dominate the next generation of business and political life. What we need now are not more out-of-touch assertions that faith in markets will see us through, nor do we need well-meaning but naive "stop-the-world" jeremiads. To get past these tired formulations and transform the way we think, we need a burst of what might be called "economic therapy," offered by an ardent capitalist to help the American economy through another of its periodic turning points.

The basic aim when our economy reaches such a crossroads is to make sure that the infamous “creative destruction” of capitalism doesn’t destroy so much for so many that America’s embrace of innovation and economic change is also a casualty. This isn’t a new worry, of course. The quest for a better blend of growth and justice has preoccupied reformers since the dawn of the industrial age. But reform is never easy. “Devotees of capitalism are often unduly conservative,” wrote John Maynard Keynes in 1926, “and reject reforms in its technique, which might really strengthen and preserve it, for fear that they may prove to be first steps away from capitalism itself.” Today, after America’s own recent experiments, there is much we already know. We know that old-style “big government” liberalism in America is dead, and that its traditional social democratic cousin in Europe seems a poor model, having produced record rates of joblessness even as it breaks the bank. We also know that Bill Clinton’s vaunted “Third Way” came and went without reducing the insecurity that Americans feel in a global age. Yet it is equally clear that the latest conservative “strategy”—cutting taxes (mostly for the well off), standing idle while health costs soar and the ranks of the uninsured swell toward 50 million, mortgaging our future to nations like China via massive trade deficits, and deregulating our financial system with explosive results—has torpedoed our public finances and fueled a pervasive sense of foreboding.

In this anxious environment, when the traditional alternatives seem exhausted, we need a new way of thinking. And, as history and luck would have it, we are on the cusp of the next of those epochal shocks that opens our minds wide enough to discover it.

PRESENT SHOCK

The shock will be administered by four forces that are set to accelerate in the next decade. The first of these—call it *White Collar Anxiety*—refers to the fact that jobs higher up the income scale

(engineers, financiers, consultants, doctors, lawyers) will for the first time be exposed to competition from places like China and India. Alan Blinder, a professor of economics at Princeton University and a former member of the Council of Economic Advisers under President Clinton, estimates that as many as 40 million American jobs may be vulnerable in the coming decades, including many assumed to be immune to such threats. It's been hard enough to maintain a consensus for free trade and technological change as lower-paid manufacturing and service jobs have moved overseas. How will business and politics be reshaped when hungry foreign rivals set wage levels (and trigger "downward mobility") for better-educated and politically potent groups in ways not previously imaginable?

The second force—*The Rush for the Exits*—is corporate America's desire to stop providing health care and pensions to its employees. To be sure, these costs are soaring in ways that seem unsustainable, especially when competing firms in other nations bear fewer of them. Still, American business leaders act today as if their search for an "exit strategy" on benefits is the end of the conversation. What happens to the millions of workers who are left unprotected if companies simply walk away?

The third force is *The Gray Boomer Fiscal Squeeze*—meaning the way the aging members of the baby boom generation will shortly send government's health and pension costs through the roof. The result, at current levels of taxation, is that even "big" government will be strapped, with little cash to devote to the other public purposes we expect it to support, from border security to schools to basic scientific research. Nor will the federal government be in a position to broaden its safety net as corporate America withdraws its own. Will it simply abandon these vital functions? If not, how will it cope without raising taxes to levels that wreck economic growth?

The fourth force is the rise of *Extreme Inequality*. Even as the three forces listed above raise risks for most Americans, the very

top of the wealth and income scale is pulling away at levels never before seen. Yet it's clear that many of the winners are reaping the rewards not of the "free market," but of clubby, manipulated schemes that are as likely to reward failure as success. Bankers who pocketed millions peddling subprime mortgages retire to their country clubs while the rest of us are left holding the bag. CEOs who preside over tumbling stock prices routinely walk away with tens of millions for their trouble; hedge fund managers who barely beat the S&P commonly earn such princely sums in a year. At what point does the ubiquity of the undeserving rich become so corrosive in a democracy that it sparks a backlash that wrongly discredits capitalism altogether?

The collision of these forces will expose much of our traditional thinking as dangerously flawed. It will also hurtle us toward a moment when fundamental questions are up for grabs in ways not seen since the aftermath of World War II, when the architects of a new economic order sat down to chart a course beyond depression and war. Can middle-class societies be sustained in wealthy nations in an era of globalization? Can democracy survive the emergence of extreme inequality? How will these trends affect our posture toward the hopes of the developing world? Can Americans build secure and happy lives amid this tumult?

SIX DEAD IDEAS

The answers to these questions will depend on how quickly we escape the pernicious influence of six Dead Ideas:

- **The Kids Will Earn More Than We Do.** Broadly rising incomes have been considered an American birthright. This pattern of generational advance is now at risk for as much as half the population.

- **Free Trade Is “Good” (No Matter How Many People Get Hurt).** Though millions of people may be hurt by foreign competition, we’re told, the overall gains from free trade so outweigh any downside that it is folly to question its ultimate advantages.
- **Your Company Should Take Care of You.** Business (not government) must fund and manage much of our health and pension benefits, this idea holds, or else we risk becoming socialist.
- **Taxes Hurt the Economy (and They’re Always Too High).** The truth is that taxes are going up no matter who is in power in the next decade, and the economy will be fine. We won’t turn into France or Sweden.
- **Schools Are a Local Matter.** Americans need more skills to maintain our living standards as developing economies rise up to compete with us. America also spends more on schools than nearly every other wealthy nation—with worse results. Yet our unique model of “local control” and funding of schools remains sacrosanct.
- **Money Follows Merit.** The most cherished illusion of today’s educated class is that market capitalism is a meritocracy—that is, a system in which people basically end up, in economic terms, where they deserve to.

As we’ll see, the persistence of these Dead Ideas generally involves a *failure to adapt to new circumstances*, a recurring feature of human thought and behavior. In that sense, these outworn concepts are part of a broader phenomenon that afflicts every organization and each of us as individuals. The question at the heart of this book—“Are old ways of thinking preventing America from adapting to the challenges now posed by globalization?”—is thus surprisingly kin to such questions as “Why didn’t newspapers realize more quickly that the Internet posed a fundamental threat to their business?” and even to questions like “Why doesn’t John see

that Emily’s new job means that he needs to help more with the kids?” In each instance, intellectual and emotional inertia traps people in antiquated ways of thinking even though circumstances radically change. You can’t develop a strategy for a country or a company (let alone for yourself) if you’re blinded by preconceptions that no longer reflect the real world.

When the day of reckoning comes for a Dead Idea, things can change very quickly—and also very painfully. In the fall of 2008, for example, we witnessed the dramatic implosion of the idea that “Financial Markets Can Regulate Themselves.” Within a matter of weeks, as markets tumbled and seemingly impregnable financial institutions collapsed, old ideas and convictions had to be tossed aside and massive new government interventions put in place by an ideologically conservative administration that only days before had deified free markets. If this Dead Idea had been uncovered and exploded earlier, a great deal of turmoil and suffering could have been avoided. In much the same way, other Dead Ideas are waiting now to ensnare us if we fail to open our minds and to act. What’s more, while the fallout from today’s financial crisis is serious, it will also be temporary; the system will almost certainly be restored to health within a few years. In the longer term, the consequences of failing to bury the Dead Ideas at the core of this book are far greater.

Our aim in the pages ahead, therefore, is to unearth premises so deeply ingrained in American economic life that they’ve essentially become invisible. They’re just “the way things are.” We’re going to dig these ideas up, brush off the dirt, turn them over in the light, and assess why they no longer make sense. Moreover, it’s perfectly safe to try this at home. Breaking free of Dead Ideas entails three steps:

FIRST: IDENTIFY THE DEAD IDEAS THAT MATTER. At any given time there are dozens of Dead Ideas in our public life, and hundreds if not thousands across our business and personal lives. Truth is, most of us probably couldn’t get through the day without a few Dead Ideas.

In my professional life, for example, I cling to the idea that “Rational Analysis Can Lead to Constructive Change”—which, if you’ve read any history, may never have been that “alive” an idea in the first place. But only a handful of Dead Ideas are big enough to pose fundamental threats; fewer still have the power to shape the fate of a society. Until the middle of the nineteenth century, for example, millions of Americans believed that “An Economy Based on White Human Beings Owning Black Human Beings Is Moral and Sustainable.” This idea seems grotesque and preposterous to us now, but it determined the contours of countless lives. Similarly, before 1920 it was perfectly reasonable in the United States to think that “Democracy Does Not Require Extending the Vote to Women.” Before 1913, when the Federal Reserve was established, sophisticated businesspeople believed that “Economic Stability Can Be Maintained Without a Central Monetary Authority.” Today, on the international scene, many Western societies believe that “The United Nations Security Council Should Have the Same Permanent Members It Had in 1945,” even though Britain and France are arguably less consequential in global affairs than rising powers like India. The list goes on.

Since there are so many potential Dead Ideas to choose from, the key in any effort to improve the prospects of a country or a company is to focus on the ones that are truly *strategic*. We need to step back from the rush of events to identify the premises that are central to an entity’s fate. For a company it may be assumptions about key customers or competitors or technologies. (“Japan Will Never Be Able to Compete with American Car Manufacturers” was an idea that needed puncturing in 1980, for example.) For an individual it may involve a tough-minded assessment of personal strengths and weaknesses. For the United States as it strives to adapt successfully to the twenty-first-century global economy, the six Dead Ideas in this book have the combination of high stakes and “sacred cow” status that give them the power to derail America’s future success.

SECOND: UNDERSTAND EACH DEAD IDEA'S "STORY." We can't move past a Dead Idea without first understanding the source of its power. Where did it come from? Why did it once seem to make sense? What has changed that now makes it useless or wrong or harmful? Who has a stake in its persistence nonetheless? We'll examine these and related questions through a mini-biography of each Dead Idea in part one of the book. The mere act of reviewing the history and trajectory of an idea, and dissecting the assumptions and circumstances that gave rise to it, almost immediately opens our minds to alternative ways of thinking that make more sense.

THIRD: REACH FOR NEW (AND PARADOXICAL) WAYS OF THINKING. The final step, based on a clear-eyed assessment of current trends, is to identify the new ways of thinking that are not only needed to thrive but almost certain to come to pass because they better reflect new realities. As we'll see in part two of the book, these "Destined Ideas" often seem taboo or paradoxical, because conventional wisdom has become so disconnected from the facts that ideas that should be obvious (or soon will be) appear counterintuitive or startling or otherwise "off." Don't be fooled: the fact that they appear this way only speaks to how skewed our vision has become. It's helpful to frame these Destined Ideas as paradoxes, because doing so forces us to reconcile apparent contradictions that exist only because our thinking today is faulty. As we'll see when we get to such Destined Ideas as "Only Government Can Save Business," "Only Business Can Save Liberalism," and "Only Higher Taxes Can Save the Economy," the mental exercise of embracing paradoxes has the power to stretch our minds as well.

Identify the Dead Ideas that matter; understand each one's story; and reach for new and paradoxical ways of thinking. This process is so straightforward, it's difficult to understand why we keep

getting trapped in Dead Ideas. But we shouldn't be too hard on ourselves. The perils of orthodoxy at moments of sudden or pervasive change have been with us forever. The blind spots bred by complacency or arrogance or certitude or habit fill the obituaries of civilizations that didn't make it, businesses that didn't make it, even marriages that didn't make it. It's human nature. And it's the things we think we know (but don't) that are the chief obstacles to success in nearly every endeavor. In the end, however, the true measure of a person, an organization, or a society isn't the Dead Ideas we fall prey to. It's whether we can summon the perspective and imagination to recognize the Dead Ideas in our midst, and bury them before real damage—or more damage—is done.