

# **LIBERTY without LAW: FINANCIAL CHAOS**

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Web page: [www.MirrorOfNature.org](http://www.MirrorOfNature.org)

- Should *laissez-faire* economics be regulated?

**-Too much** liberty can degenerate into unaccountable chaos. Thaler & Sunstein (2008) argue that totally free markets can lead to disasters precisely because autonomous individuals are not good decision-makers.

**-Too little** liberty may cause stagnation.

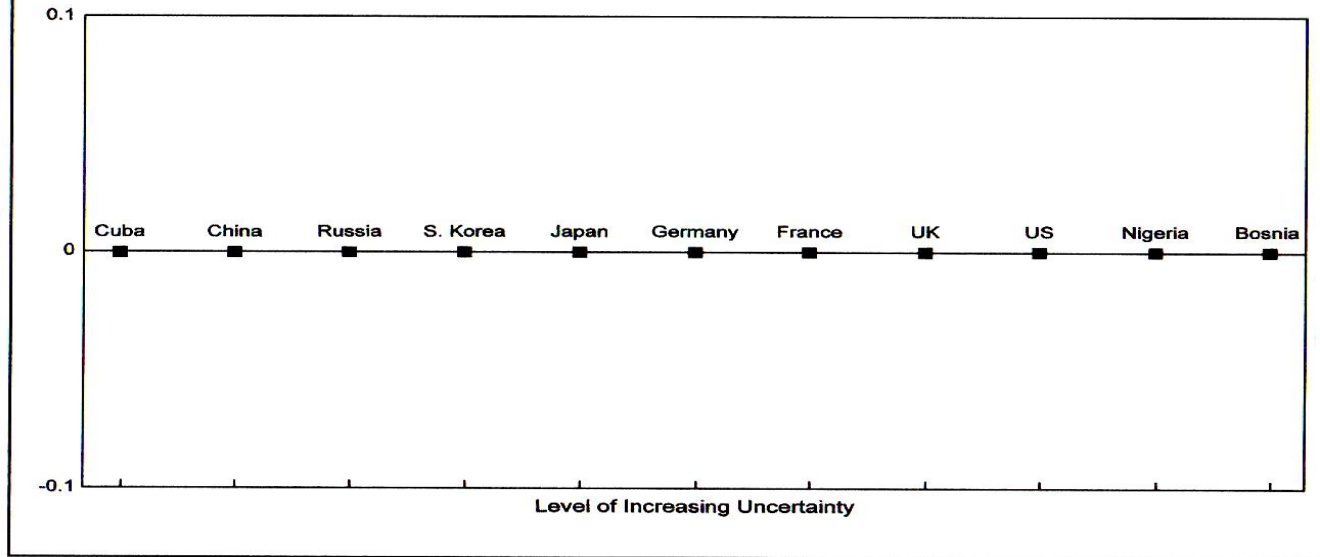
What is an optimum balance between autonomy (liberty) and heteronomy ( law) ?

- Peters (2001) and Shermer (2009) build on Adam Smith's *invisible hand* and chaos/complexity theory to show how free markets are by their nature continually evolving, emerging systems that require uncertainty to operate successfully.
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- Peters, Edgar, E. 1999,  
Complexity, Risk, and Financial Markets, Wiley

- Shermer, Michael, 2009.  
The Mind of the Market: How Biology and Psychology Shape Our Economic Lives, Holt Paperbacks.

**FIGURE 11.1**  
**Continuum of Increasing Uncertainty**



LAW.....LIBERTY

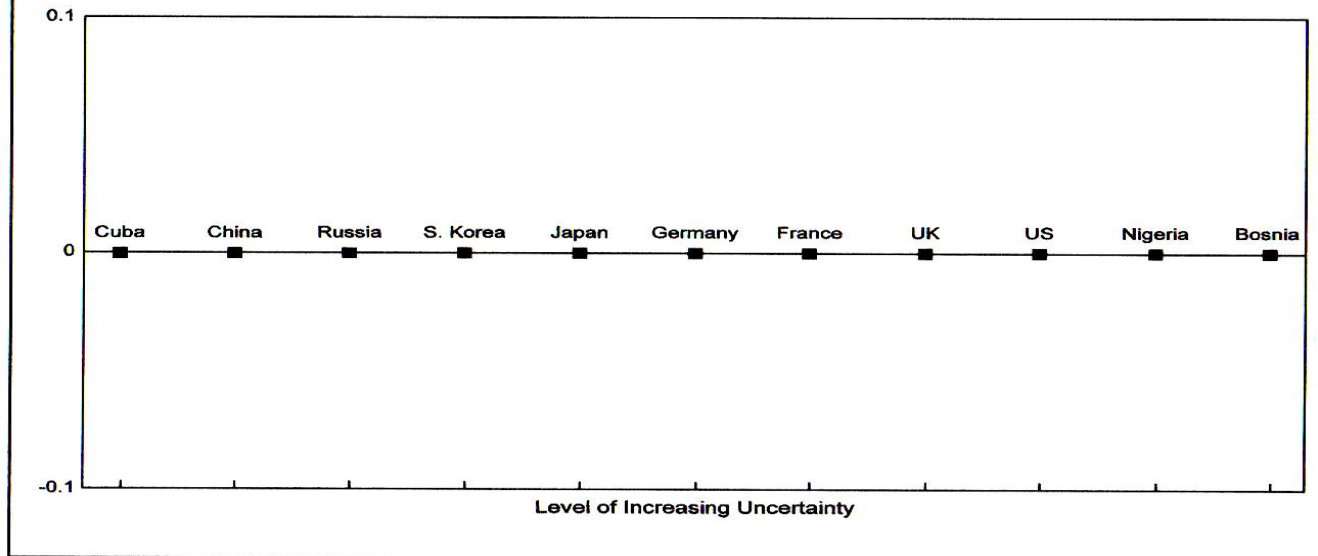
- Is there a relation between Peters' Uncertainty and the Heritage Foundation 's, [www.heritage.org](http://www.heritage.org) Index of Economic Freedom (2009) ?

# HERITAGE FOUNDATION INDEX OF ECONOMIC FREEDOM (2009)

## Ten Economic Freedoms for United States

91.9	Business Freedom	Avg. 64.3
80.0	Investment Freedom	Avg 48.8
86.8	Trade Freedom	Avg. 73.2
80.0	Financial Freedom	Avg 49.1
67.5	Fiscal Freedom	Avg. 74.9
90.0	Property Rights	Avg 44.0
59.6	Government Size	Avg. 65.0
72.0	Freedom. from Corruption	Avg 40.3
84.0	Monetary Freedom	Avg. 74.0
95.1	Labor Freedom	Avg 61.3
<b>80.7</b>	<b>AVERAGE</b>	

**FIGURE 11.1**  
**Continuum of Increasing Uncertainty**



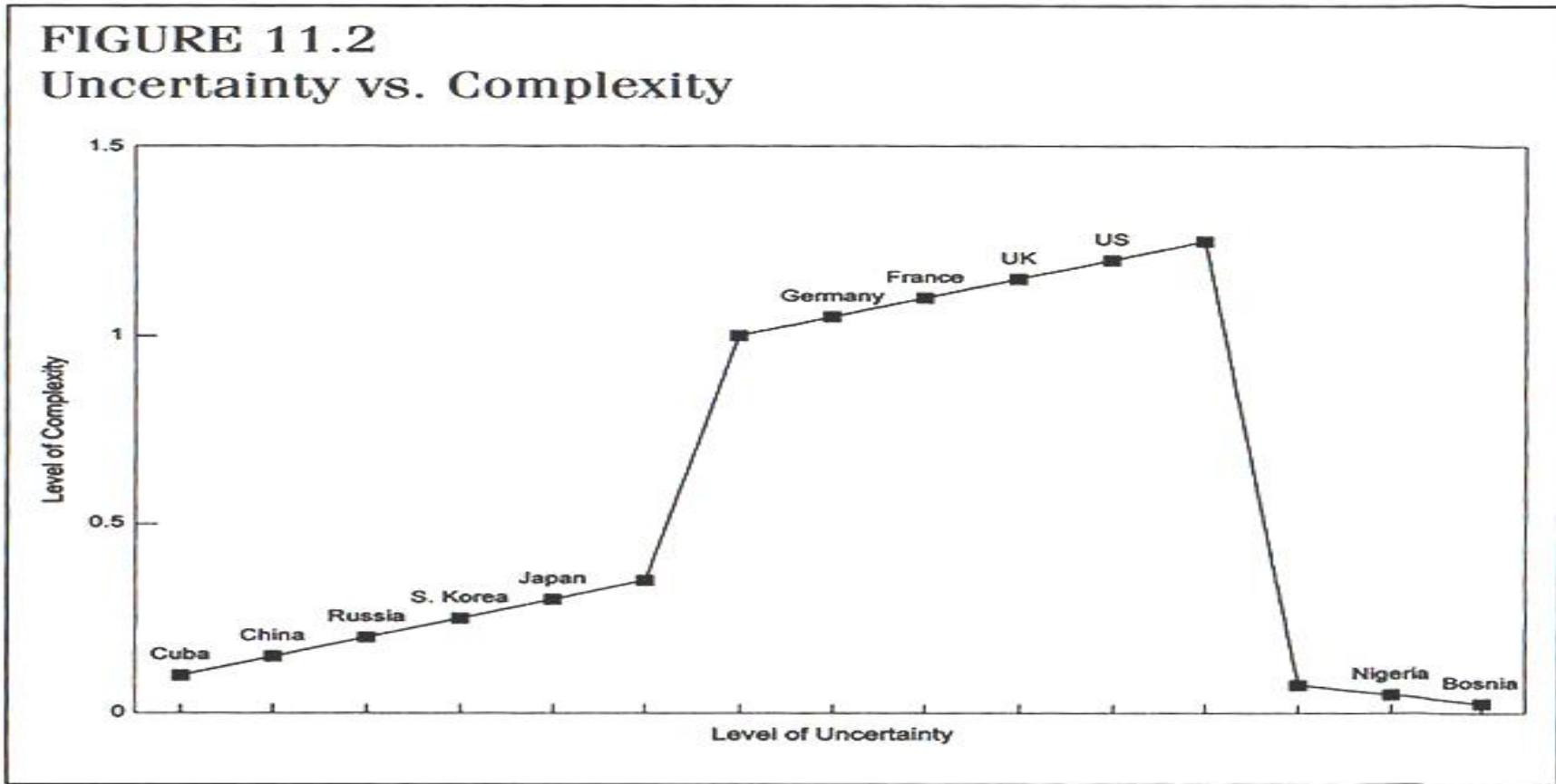
LAW.....LIBERTY

- Is there a relation between Peters' Uncertainty and the Heritage Foundation 's, [www.heritage.org](http://www.heritage.org) Index of Economic Freedom (2009) ?

Cuba – Russia – China -- France -- S. Korea -- Germany -- **JAPAN** -- UK -- US

Peters, Edgar, E. 1999, *Complexity, Risk, and Financial Markets*,

SELF  
ORGANIZING

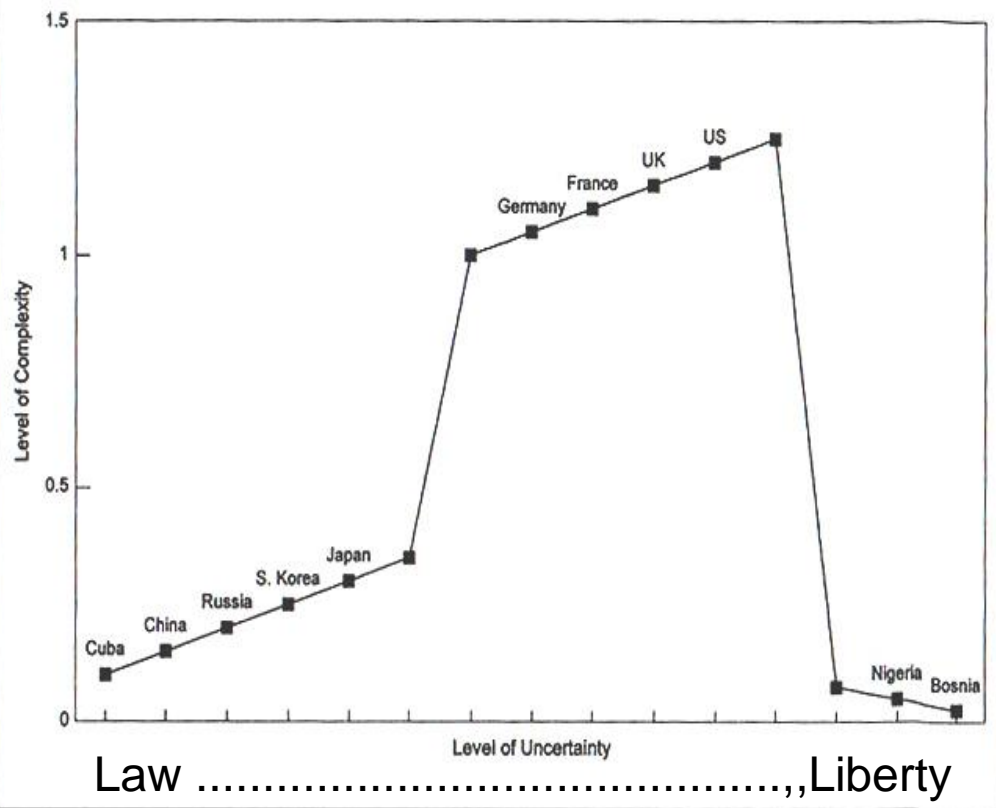


LAW.....LIBERTY

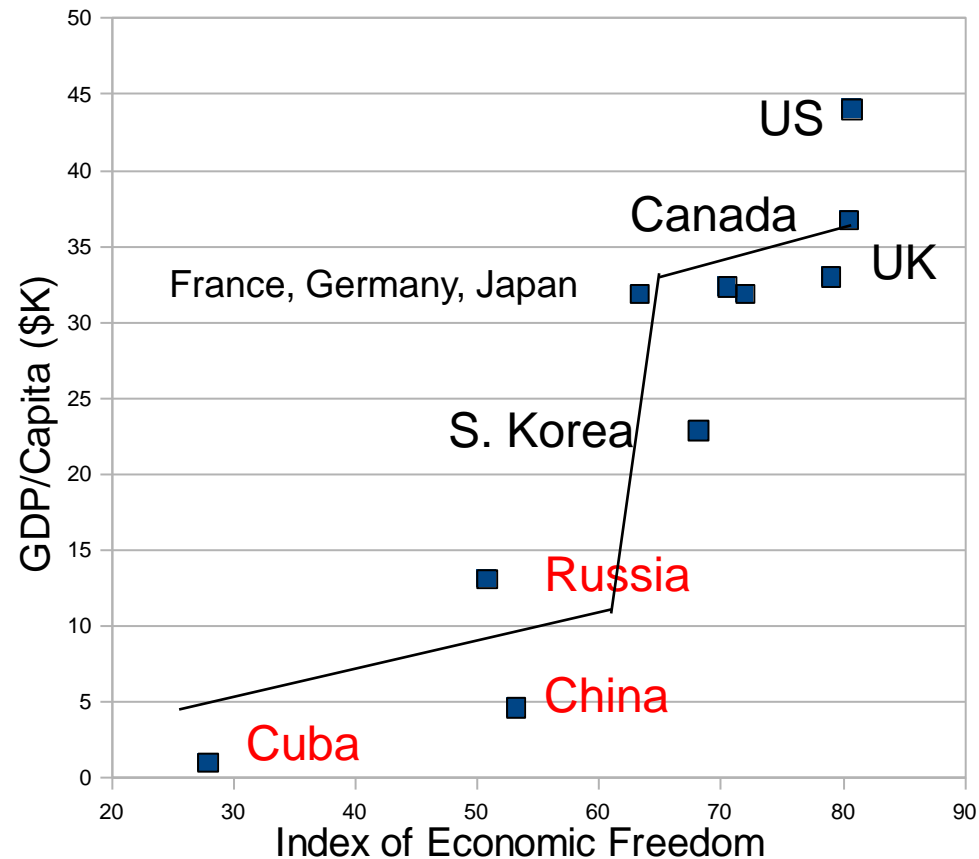
- “Phase Transitions” or beak-points: more self-organization.
  - Matthew Effect*, “To everyone who has more shall be given.”
  - Cumulative Advantage, Best Seller Effect (Shermer 2008)*.
- US, UK, Germany had an optimum balance of Liberty & Law.
- Economic chaos, anarchy in Nigeria, Bosnia = Low Complexity.

# CORRELATION OF COMPLEXITY WITH GDP

FIGURE 11.2  
Uncertainty vs. Complexity



GDP/Capita vs. Economic Freedom



Cuba – Russia – China -- France -- S. Korea -- Germany -- **JAPAN** -- UK -- US

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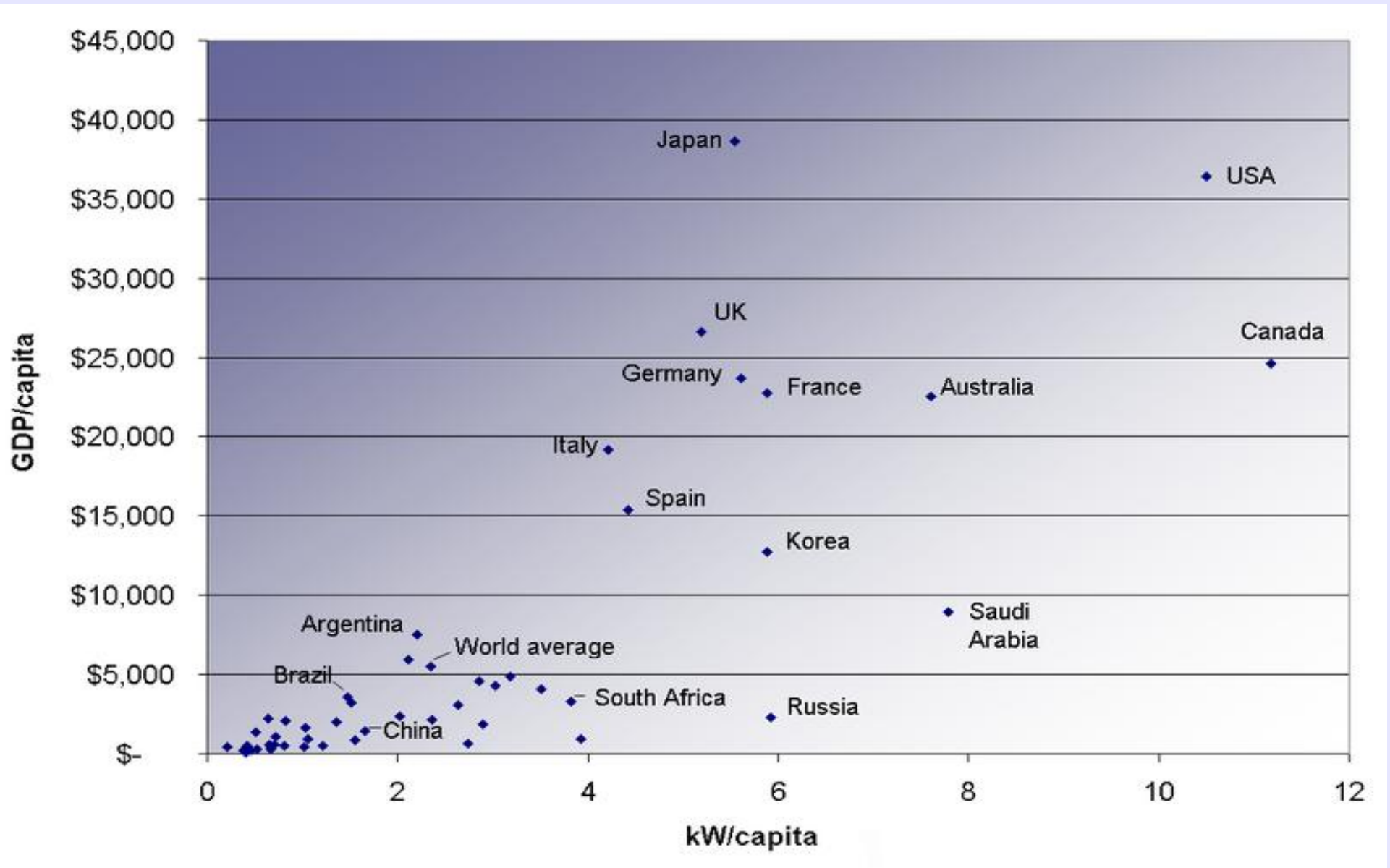
**Liberty with some Law (Economic Freedom) yields High GDP per capita.**



## WHICH COUNTRY HAS NOT EXPERIENCED A SINGLE BANK FAILURE?

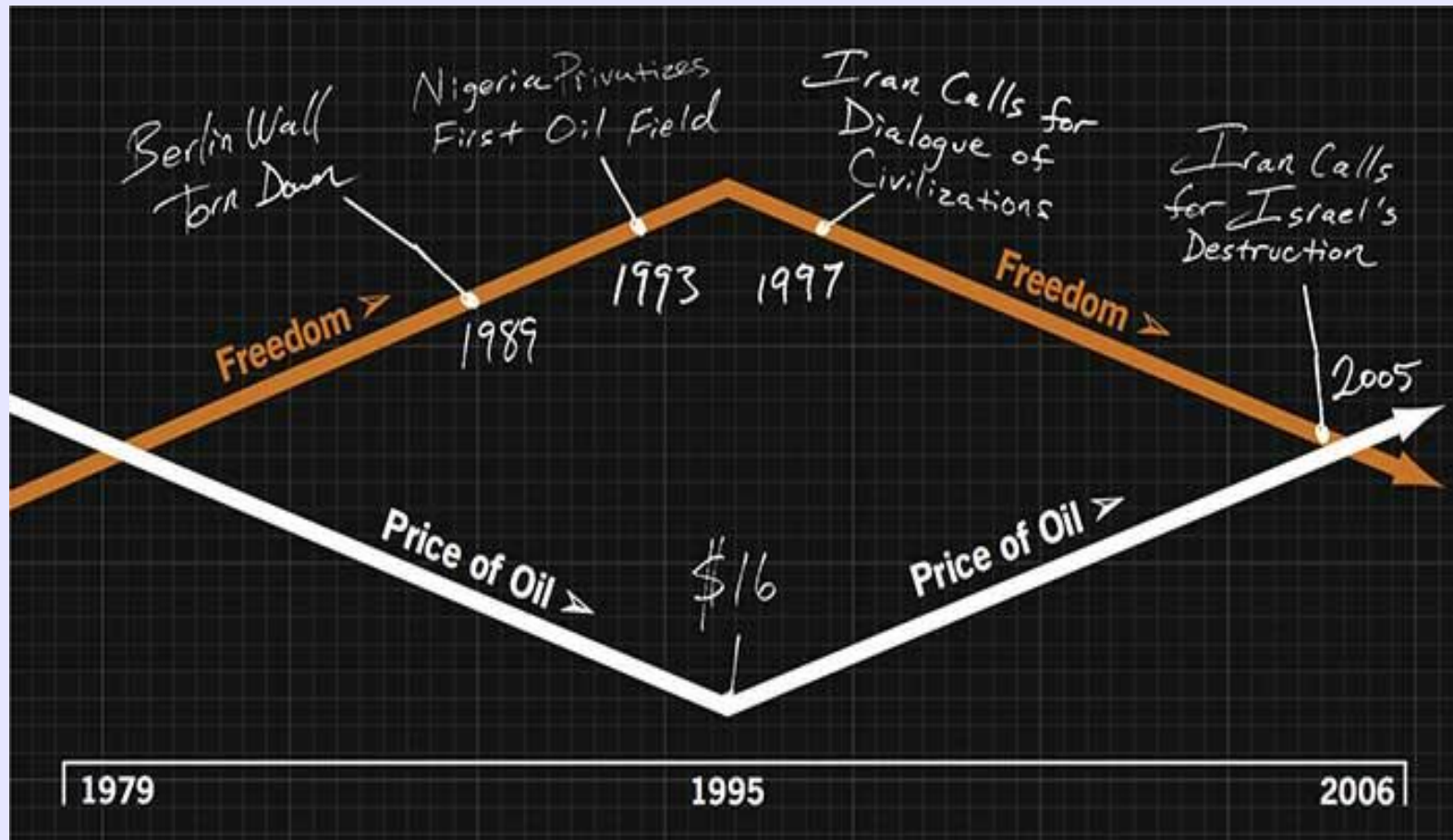
- Canadian banks are typically leveraged at 18 to 1, avoided subprime --compared with U.S. banks at 26 to 1.
- In 2008, the World Economic Forum ranked Canada's banking system as the healthiest in the world.  
-America's ranked 40th, Britain's 44th.
- Canada's banking system, made up of five national banks with branches from coast to coast, was inspired by Alexander Hamilton. - Fewer banks are easier to regulate.
- Home loans in the United States are "non-recourse,"  
-If you go belly up on a bad mortgage, it's the bank's Problem. -In Canada, it's yours.
- Fareed Zakaria's Article in NEWSWEEK, 16 Feb 2009

# NEED RENEWABLE ENERGY JOBS



- Energy use (kWatt hours) is proportional to GDP
- The energy efficiency (kWatts) of the US is one-half that of Japan and Europe.
- The \$700B/yr we spend on imported oil is not creating jobs in the US.

“Freedom decreases as the price of oil increases.”  
Friedman's *Law of Petropolitics*. “*Hot, Flat, and Crowded*,” 2008



- ENERGY FROM HEAVEN: Solar, wind, biomass, NOT
- ENERGY FROM HELL: Oil, coal, natural gas.

“The way we use energy strengthens our adversaries & threatens our planet.” President Barak Obama's Inauguration Speech, Jan 2009

# THE AMERICAN WAY ?

“O' beautiful, for patriot dream  
That sees beyond the years...

Confirm thy soul with self control,  
Thy **Liberty with Law.**”

From “*America the Beautiful*” (1895)

or

“Irrational Exuberance:”  
Tax Cuts and Deregulation



# WE'LL TAKE CARE OF THE RISING SUN



## YOU TAKE CARE OF RISING PRICES

- V** 1. Buy and hold War Bonds.
- I** 2. Pay willingly our share of taxes.
- C** 3. Provide adequate life insurance and savings for our future.
- T** 4. Reduce our debts as much as possible.
- O** 5. Buy only what we need and make what we have last longer.
- R** 6. Follow ration rules and price ceilings.
- Y** 7. Cooperate with our Government's wage stabilization program.

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# How We Won WWII