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Psycho-Economics

Emotional Reasons for the Stock Market Collapse

Capitalism Hits the Fan

What Happened to the American Dream?

What Changes for America Now?

The Journal of Psychohistory

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CHRISTIAN LACKNER

Emotional Causes for the Present Global Financial Crisis

The biggest global financial crisis since 1929 is accompanied with emotions of grief, aggression and resignation in a great part of the populations in America, Europe and many other parts of the world. The worries are justified, as this explosive mix of emotions and the real loss of work and money marked the end of the Weimar Republic and the beginning of the Nazi-era 80 years ago. Former president of the US Bill Clinton became famous with his saying "it's the economy, stupid!," but is simply the economy responsible for ups and downs of societies? Is not economy itself, in the way it is practiced, result of feelings of needs and fears? Indeed there are plenty of good reasons to blame investment bankers acting like bands of robbers raking what they can get and make enough money with one or two deals so they would never have to go to work again to make a good living. And it is fascinating to listen to Americans who have lost everything but what they are wearing, saying: "Oh yes, its my own fault, I just have been too greedy." Some even give the impression that they heave a sigh of relief and that they were served right having been to be victims of the crisis.

Two patterns seem to have corresponded, as in the depressions we have seen before in history: on the one hand a deregulated financial system acting after the principals of networks and, on the other hand a subtle collective need of a great sacrifice. Both patterns shall be focused on in this paper.

BANKS AND SACRIFICE

In conflict seminars, when we explain to our participants the beginnings of modern civilization and the creation of hierarchies, we explore the historical time known as the Neolithic Revolution. In that period of time peo-

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ple began in a mostly uncoordinated global way to settle down instead of roaming around almost simultaneously as nomads. Why this happened is still not clearly understood, if due to ecological reasons e.g. the dramatic diminishing of animals that could be hunted or climate changes forcing the tribes to stay at places where nature could still allow a survival of the group not through hunting and gathering but through agriculture. One miracle is for instance how it was possible to turn wild grass into grain. The taming of animals is considered a rather easy skill compared to the development of growing profitable crops. As a result, the way of living changed substantially. Instead of changing camps according seasonal requirements, villages and early urban centers developed, each bringing out special skills in producing goods which then could be exchanged and traded with others, usually in central market places where the first cities emerged. The new system had enormous advantages. Nomads were not able to produce a surplus of goods not only because they could not it carry with them, they had to live of what they found and sometimes hunted down. A society of settlers can develop an agricultural system that in the first time in history allowed producing a surplus and storing it—the first form of wealth. We know that soon the number of people increased enormously, probably until today the largest increase in population as compared to the number before.

Very early the system reached a level of abstraction of considerable dimension as communication mainly had to function via representatives and so became indirect and abstract. Like today, the realization of ones interests depended on how others got them to the level of power. To create a complex system of a division of labor and to produce a surplus is simply only possible by creating a hierarchy, a model of a graded communication top down (orders, needs) and bottom up (reports, needs) which overruled older patterns of communications. The central figures became "abstract" as well, they could not be known personally anymore and they seemed to be transcendent, even dehumanized. The former chief now turned into something like a king and the other prominent figure in tribes, the medicine man, became the priest as the custodian of the temple. The kingdom was financed by obligatory tribute, usually in the form of natural goods, leaving the peasants little more than what they needed to survive. The storage of surplus in early time were the temples, the priest functioned as administrators of what has been brought in. Numbers and counting systems had to be created what made early priests the first bankers in history. Regular sacrifice rituals characterized early civilized societies, carried out by the ones who had to legitimize their superior position, usually the king and the priests deciding when to start a war against external enemies or conduct an internal sacrifice to settle inner turmoil.

Early Capitalism grew in Europe when clans and tribes were brought together into national states starting in the 15th century. The banks meanwhile had become independent from church, state, and made a great deal of money out of financing trade or borrowing money at high interest rates. And then as well, the states participated in the risky business showing regular cycles until today. A few examples[1]:

1557: The bankruptcy of the House Habsburg. The Habsburg Empire then was a real global power, including Spain (1516-1700) and its colonies. When silver imports came to a halt, King Phillip II. of Spain stopped paying back loans. What followed was the first economic crisis of Early Capitalism.

1637: The Tulip Mania. Tulip bulbs (from Armenia and Turkey) made even ordinary people in the Amsterdam of the 17th Century to gamblers. They were traded in normal inns for astronomical prices. The deals became speculative in a way that soon only the rights on the rare exotics changed their owner, so the object of the deal was no material object but a promise as a hope. In 1637 suddenly one of the dealers got stuck with his future contracts. The prices fell into a bottomless abyss and the market imploded.

1690: The British Money Crisis. After the Glorious Revolution under Wilhelm of Aurania, England went to war against Louis XIV and the Catholics in Ireland. The horrendous costs had to be financed with state loans. It came to a crisis because the credits failed to materialize and of the Bank of England founded in 1694 by the adventurer William Peterson.

1711-1720: The South Sea Fraud. An early bubble was created by the foundation of the British South Sea Company, which was trying to develop trade with goods from the South Sea (what then meant South America). The company took over public debts, financed through stocks of increasing market prices. The flight of the stocks triggered an exhilaration, more and more companies were pushing into the market and investors bought with credits. 1720 the bubble exploded, many ended up bankrupt followed by a recession.

1789: "Girls from Geneva" and Assignation Business. One of the causes of the French Revolution was the chronically lack of money of France. Resourceful Secretaries of Finance kept the Ancient Regime alive. For an example they gave out life annuity papers, which were oriented on the average life expectancy of 30 Genève girls. Money was needed in the post-revolutionary France as well. 1790 it was decided to give out "Assignees'," paper money, covered by the possessions of the former aristocrats. By 1796 the country was flooded with worthless assignees.

1825: MacGregors Poyais-Fraud. The British economy boomed after the Napoleon Wars. Rich industrialists were looking for investments and found MacGregor. With stories about the South American country "Poyais" he collected money. When the fraud was revealed, 60 banks went broke. The Bank of England only survived thanks to a gold-shot of the Paris National Bank. MacGregor got away with it.

1866: crash after the US Civil War. After the collapse of the Ohio Life Insurance and because of tensions around slavery before the Civil War (1861-1865) British investors withdrew from the US. The British business bank Overend, Gurney & Co fell victim—the best endowed bank institute after the Bank of England. It was the last major bank crisis on the island until the fall of Northern Rock 2007.

Lets now jump to the 20th Century and we can see a clear acceleration of the crisis pattern:

1914–1924: Hyperinflation after the War

1929 October 24th: Black Friday

1968–1973: Collapse of the Bretton Woods System

1973: First Oil Crisis

1979–1980: Second Oil Crisis

1987: the Big Crash of the Stock Market

1990–2002: Standstill in Japan

1994–1995: The Tequila Crisis

2000: The Dotcom Bubble

We seem to face an acceleration of the crisis cycles with global effects although lacking severe violence at least within the Western nations.

The patterns come out clear:

1. Economic hypes come after wars and lead to wars to punish the ones thought to be responsible for the crisis.
2. On the emotional level we see an alternation between greed, guilt and aggression, all driven by fear.
3. The period of the cycles resemble changes in attitudes toward basic so-

cial habits and have accelerated from a 60-70 year span to a 10-year span nowadays.

4. An increasing of freedom always seems to be accompanied by exaggeration and retreat, like coming home to become "a good child" after having been bad.
5. The ultimate authority is fantasized as the savior (in mania)—an effective projection of ones own inferiority, born out of the guilt feeling.
6. Modern Democracies cannot stop the patterns from happening but can ease their effects by cooperating and participation instead of competing against each other.
7. The appearance of new psychoclasses in history creates tensions between the new and the older psychoclasses, resulting in violent clashes periodically. What clashes are ahead?

CYCLES OF SACRIFICE

People build systems; governments, organizations, companies, frauds.[2] In Western countries the degree of being an individual depending on bureaucracy has reached a point where it not long ago seemed to be impossible to underlie irrational motives. The present but not surprising facts show that nothing is more irrational than what happens on the stage of international relationships. The degree of interdependence between nations has steadily increased since early imperialism and has made every crisis a global one. The culmination can be seen right now as the global financial crisis is affecting all countries even if they have not participated in the speculations.

It might just be too easy to now scapegoat the bankers for creating the present financial crisis. Neoliberal laws starting in the 1980s opened all doors for a global financial market to expand to immense dimensions, uncontrollable even for the central players due to technical sophistication and speed. The "Neoliberal Mania" was a deliberate mania, although not under fully conscious circumstances. Still it was brought about unconsciously—and as with all former manias, nobody is really able to explain the reasons for the same phenomenon appearing repeatedly.

The outcome is clear though. Jean Ziegler, Swiss sociologist and consultant of the UN-Human Rights Commission brings it to the point: "Not only 10,000 Americans lose their homes every day. Worse consequences will hit the poor countries because less money will be spent for development aids . . . the piles of dead bodies will grow . . . therefore I say: a child nowadays dying of hunger has been murdered."[3] The financial system in the role of the priests, the new "dictators of the world who have more power than any leader in history, beyond control of the UN or national institutions." Ziegler says, "It is the system that is ill." He means the neoliberal credo of letting the invisible hand of the market take over all control and the belief behind that privatizing will lead to a better world for all. Could it be that no longer leaders, real persons, are in charge of regular collective sacrifice rituals, but a system, something abstract and inscrutable . . . a modern killer mommy?

There is nothing more abstract and virtual than the global financial market. Experts even say that not a single banker would be able to clearly see how it is really functioning. Aren't these attributes we formerly related with goddesses, the transcendent world of punishing creatures, powerful and beyond our influence, just as if we are little children at the mercy of a powerful mommy deciding over life and death? Have national hierarchies delegated the regular sacrifices to global network-like structures of hedge funds and financial derivatives? Have nations and their leaders given up their power in favor of a global system and its profit driven logic? Many symptoms do indicate, that this might be the case. But it seems to be worse.

When the Reagan administration and later the Thatcher regime in harmony deregulated the financial markets almost completely, after gathering a small international group of intellectuals around them who discussed global developments on the hills of Geneva, Switzerland, they in fact favored the privatizing of states. With the help of the World Bank (actually dominated by the US government), poorer countries (today called "emerging markets") were offered generous loans to invest in their infrastructure. Most of the money was going back to companies selected by the World Bank and its accomplices. When the countries could not pay back the credits, they were asked for favors, like selling their resources for a cheaper price or to participate in military activities. So-called "Economic Hit Men" were in charge of the economic blackmailing, collaborating successfully with most of the leaders in those countries. Did a leader refuse to take the offer of a generous loan, the "jackals" were brought in and tried to assassinate the leader. If this did not work, military action was taken. This way, enormous amounts of money concentrated in the hands of a few, with the barefaced justification that the market would regulate everything. These monies were taking an increasing grip on organizations of public interest like railways, water supply companies, etc. Due to the increasing international interdependence and due to the deregulated money market, the financial sector permanently tried to find more ways to build bubbles as the political system steadily pumped fresh money in.

Several bubbles have exploded so far (e.g. the Spanish Real Estate Bubble), but what remains is the fact that public interest has stopped to exist (the word "privatize" comes from the Latin "privare," meaning to rob). Some say that leaders in democratic countries are mainly designed by the media, the candidates appearing like dummies of influential people that have no name known to the public. This is not how a progressive psychoclass would be acting, neither are the ones who claim such. It seems like a backlash into times of street robbers and victims taking every what so ever measure to make gains in the shortest possible time—on the cost of the ones without influence. These impudent behaviors led to risks that were no longer able to be handled, all this was caused by one empire, countries in Europe and everywhere else that play the game. In almost all comments and analyses we can hear or read that only the bankers were greedy, they could not get enough, creating a pyramid of risks likely to collapse sooner or later. But in the creating of a bubble they seem to be at the end of the line. The years before the collapse it was proclaimed that the financial system is based on strictly rational considerations. Nobel Prize winners delivered the mathematical formulas, making everyone believe all money is safe, or as an investment banker told me in 2004: "You can compare it with an organ. Instead of having only one keyboard we now play on ten simultaneously." So, if the system itself is based on a strictly rational model, the reasons for its failure must therefore be searched for in the world of emotions.

Astonishingly enough we can see on TV that Americans who have lost their houses and their jobs, are not blaming the system or the bankers but themselves, saying, "I was too greedy myself and it is righteous that I now have been punished, loosing everything." In TV-interviews some even appeared satisfied and happy having lost everything as if their former life had been sinful and greedy. In a radio interview the Swiss financial expert, psychoanalyst and author Peter Koenig[4] said that the reason for the present crisis could be expressed in 2 words: profit maximization. The emotional driving force is in his view the search for emotional stability and self-confidence. He states that the accumulation of goods and money only suggest that self-confidence could be achieved, but it will never really come true and therefore is by means infinitive. The emotion underneath is insecurity and fear of being punished for not functioning—in the eyes of an authority, based on our primary relationship with parents and siblings.

WHAT IS GREED?

During the last Great Depression starting with the Black Friday in 1929, psychoanalysis has already been around for a while. Contemporary psychoanalytic theoreticians at that time said little about the collective emotional reasons. Freud`s Theory of Compulsions has thoroughly unwrapped the development and stages of compulsion on the individual but dared not to try to explain collective phenomena with his findings. In his late works he left this task to further scientists, saying that future generations will have to try to find the key to the patterns of the behavior of societies.

In 1938 Otto Fenichel wrote an essay, "Über den Bereicherungstrieb" (About the Compulsion of Moneymaking)[5]. What we can read there surely has the air of the time the essay had been written, but some classifications astonishingly give additional aspects to the present situation. Fenichel said, when observing the compulsion of moneymaking or the greed to have possession, we have to distinguish between four different driving forces that have to be seen as interacting systems.

The first one he calls the "rational motive" that simply states the more money someone has, the better someone can fulfill ones needs. This motive then turns irrational when illusions build up about the possibilities to become rich, he remarks one sentence later, and continues, that this motive only exists, if money is of social importance. The question of how the possibilities in a society are being shared remains a problem. Fenichel describes this dimension of compulsion as a sociological discourse, but does not mention how this motive has led societies to put periodical destruction rituals on stage. Potlatch rituals usually had several motives: one to create transparency about the different material possibilities to every single member of the tribe by destroying all surpluses. This was thought to prevent the community from inner conflicts. The other motive was to show the neighboring tribes how potent they were when being able to destroy so much valuable goods. The third motive guaranteed the mutual responsibility. All motives can also be witnessed nowadays. With curiosity we watch with shuttering aw the news via the media who has just lost how much money, watching the fires of burning banknotes everywhere.

Fenichel calls his second motive to make money "the will to power". People with little money can be made dependent from the rich. Rich people are being more appreciated in a society, giving them a feeling of more self-respect. This motive turns pathological when the fear to loose self-respect is closely connected to the fear of not being loved and respected by others. Applying Fenichel's thoughts on the present crisis, we would have to ask, if a lack of self-esteem has not to be considered as one of the motives to develop greed. Neglected children usually develop a deficit of self-esteem and power can compensate the complex. If these assumptions are right, one of the reasons for the present crisis must be seen in neglected children with low self-esteem, where material richness substitutes social love and mutual respect in a society. The diagnosis could be made for every country, maybe showing a correlation between neglect in childhood and greed.

The third motive Fenichel calls "the striving for property." Money, as all property, corresponds with parts of the body and the fear to loose parts of it or the wish to regain lost parts. In this respect feces have a special meaning, which we want to keep. He says, that especially these pregenital fears of physical damage are being compensated by the compulsion for property. Following Fenichel's writing, the destruction of money as we experience it right now can be seen as a collective diarrhea, a forced letting go of what has compiled in our intestines, or, to speak with Lloyd deMause, the feeling of being poisoned by our own feces. So it truly makes sense that about the crisis bluntly many speak as a necessary "cleaning-effect." In a "Darwinist" manner the fittest will remain and the weak are diminished. The financial crisis mainly hits the poor, making them to scapegoats for the fear to loose.

In the fourth motive Fenichel admits that it is the one related the least to psychoanalysis: "The Social Matrix of the Compulsion of Moneymaking". And very modernly he says: *"The incurable contradiction of our system of production lies in the fact that production can only be kept upright by increasing it constantly and at the same time the customer with money is being limited . . . this leads to the circumstance that the capitalist has to accumulate in awareness of the punishment of ruin."*

Dimensions of greed (according to Fenichel):

Oral: primary need, blackmailing out of guilt feelings, forms of oral cure (Erikson)
Anal: performance driven, give and hold back, forms of anal restoration
Genital: driven by self enhancement, social or left-alone-conflict

One of the most difficult phenomena to understand is the fact that economic downturns appear in regular circles, repeatedly. They start mostly surprisingly and create situations of unpredictable future, causing fear and anger amongst the ones affected and so they provide a fertile soil for social upheavals and wars. Fenichel thought that the key is to be found in the system of production that can only be kept going, if a few accumulate possessions (of money or goods) for the price of making the majority poor. When the now poor cannot afford to buy anymore, the system collapses and starts from the beginning. This theory looks convincing. At the beginning of the present crisis we could observe masses of Americans who were no longer able to pay back their loans and the whole system crashed. The extent and massiveness of the crisis then depends on how large the efforts were to keep the system going. In the present case by taking even higher risks in drawing a profit out of the loans far away from the basic capital invested before. Seeing it this way, the past and present economic downturns are inevitable, if the system itself is not changed or the motives behind the system respectively. The security measures taken by politics and the economy (like the example of the investment banker shown above) may have become more sophisticated and complex—they cannot avoid any crash though. One can maybe draw a comparison between an old and a new car: an old car without any security features will cause great injuries in case of an accident to the passengers even when driven with low speed. A modern car with airbags and traction controls allows you "to go" much faster and gives you the feeling of being save. When the limit is reached, the speed will be so high that a crash has a much higher destruction potential. The more we try to prevent a crash, the bigger its impact will be.

The Western system of production definitely implies self-inflicted destruction, but it is not god-given, humans created seemingly the periodical downturns—at least unconsciously and to some extent—deliberate. The system insists on repeated sacrifices and is therefore an integral element of the construction of societies. If this is true, what then is the benefit we get out of those crashes? Surely not a material one, as money and goods are being destroyed. As already mentioned above we hear people say, "these are necessary cleaning processes", "the weak will not survive, but the fittest will become even fitter", or "its like a bushfire, necessary for the health of nature". Such comment may even underline the deliberateness of collective destruction, punishing one and others, for having been too greedy. Spoken psychoanalytically: the causality might be because we have sucked on mothers breast too hard so she slapped us.

Are here, as psychohistorians propose, childhood experiences being restaged? Can one dare to claim, that early childhood trauma can be found in collective phenomena like the present financial crisis? As no other explanations ultimately give information about *why* such crisis repeatedly shows up, this approach should not be ignored at least. Regular sacrifice-rituals are being produced unconsciously to suggest to be cleaned of sinful feelings, coming from deposits of early childhood traumata. The social body is seen to be polluted and dirty, asking from leaders who act as poison containers. In this function they are to organize a sacrifice either by going to war or doing a purifying crusade against a group that seems responsible for the feeling of pollution. The language of the present crisis reveals that we have to do with a cleansing process. The subprime stocks are called "toxic papers" which need to be gathered in "bad banks", and what made them toxic was our greed.

EUROPE AND THE USA

What happened in the years before the crash? The demographic picture shows aging societies in both hemispheres. The US compensates the circumstance that less children are being born by citizens through an offensive immigration policy as it has done so from the beginning. In Europe as well as in the USA the generation born between the Wars and survived WWII is known as the "X-generation," they profited from the prosperity in the decades after the War. They were able to save money they thought they would need to pay for the education of their children and to be able to keep up the living standard also in their later years. After WWI for many reasons almost all European nations created a public pension system. One aim was thought to be that it has always been a strong motive to join the army and fight a war to be rewarded afterwards by the state with a piece of land or a reward payment to finance the time after working life. Every employee contributes a considerable percentage of his salary into the public pension and this money was used to pay for the older generation. This construction is also known as the "treaty between generations." When in the 1970s it became obvious that due to less children being born, this system will not be able to finance itself anymore, the states demanded from their citizens to privately pay in a stately or private fund to support the pension system. These private funds more and more invested in the stock market as banks promised higher interest rates compared to public loans. Not so in the USA. There a public pension system never existed. Everyone has to look after their own fate when getting old, and Americans privately invested huge amounts in the stock market, fearing poverty in thein old days (Fenichel's third motive). The enormous funds went shopping and bought companies all over the world, but especially in Europe where high profits were to be expected. This forced the companies to achieve two-figure profits every year, or they would be torn apart and sold, as we all witnessed in the blooming years of Neoliberalism. Most of the companies only survived this process by selling all their possessions, cutting costs, increase productivity (squeezing out employees or supplement labor by machines). Slightest economic downturns would drive these companies to the edge of existence. They had no more reserves to survive an economic crisis. One reason for the collapse of our economic system stems from the retired sitting in Florida or elsewhere who are being afraid of poverty (being left alone). American pension funds were greedy as grasshoppers, forcing the banks to create even riskier products to compensate their fears.

Although Europeans played the game as well, the main effect came from the US and its practice to make business in Europe. Communities in Europe sold all they had (public transportation, infrastructures, etc.) to US investors, leasing it back in long term contracts, and invested the money earned, in: stock markets. A vicious circle as it showed when the downturn began. And it was all logic. The formulas came from Nobel price winners, and the executors were a bunch of yuppie like investment bankers who acted more like playing a computer game, being happy to make a lot of money and having adolescent amusements while working. They were not deliberately pushing the world into a depression, they only knew how to increase their profit, otherwise, politically or socially, they are completely incompetent.[6] They were made to act by means of politics (making cheap money possible) and the economy whose simple goal is to make profits.

How do political systems react to such a crisis nowadays? The change of paradigm in the US found its expression in the election of a new president, being celebrated like a savior. His decisions are being critically followed and although he announces peace paroles, in the interest of what is expected from him will as well have show toughness and power to survive and create—as he has announced in his campaign already—sacrifices. No such thing in Europe. The consensus-based model of sovereign nations in the EU is centralized in a way that does not allow one nation or person to become a leading player. The balance of particular interests of nations and the common interest of Europe is to be decided in every single decision. This self-given permanent conflict turns out to be a development driver for increasing the competence of managing a heterogenic society. Plenty of obstacles such as the number of languages spoken and the cooperation necessity of nations with deep and historically grown and burdened relationships have to be overcome. Whereas in the US the two-party-system still promises solutions for the future, the European spectrum of political parties shows the dividing of common left and right parties, bringing out "hybrids" and new political formations (like the Greens), a new psychoclass, marking the post-political era after European nationalism. Most likely the future will bring more of the same as many hopeful reformers already complain about. The experts being asked for solutions seem to be searched and found in the institutions being part of the game before. Jack Welsh, one of the inventers of the neoliberal "tool," the Shareholder Value Principal, recently committed he now understands having been wrong in his assumptions. We may better be suspicious about all new promising saviors and increase the social competence of as many to understand and constructively influence the development of large and small social systems in our range. Sustainability of measures being taken in every decision concerning the development of mankind is being demanded by the new psychoclass. And to make developments sustainable they should be inseparably linked to participation models. The idea is to break up the disadvantages of central institutions by giving them the function to increase and manage the self-organization of societies. The framework must be flexible to be able to react to outbreaks of irrationalities as described in this essay. When Europe goes on without major conflicts it is likely to reach a situation in the near future (meaning 100 or more years) when it will be possible to avoid regular sacrifices or at least keep them harmless. We may need it to keep our earth being able to feed a mankind full of greed.

Christian Lackner, Ph.D., is Philosopher, Group Dynamic Trainer and Organizational Consultant. Director of the Centre for Social Competence and Organizational Learning at the Klagenfurt University, Austria (www.uni-klu.ac.at/scol). Member of the Austrian Association for Group Dynamics and Organizational Consulting (www.oeggo.at). International VP of the International Psychohistorical Association

ENDNOTES

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