

# **A New Psychology of World Finance**

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## **1. Background**

In the early 1830s, a land boom in the western states, construction of transportation systems, and elimination of the national debt propelled the United States to its first economic boom and Wall Street's first bull market. However, by 1837, every bank in the nation had suspended gold payments, 90 percent of factories were closed, and the country was wracked by its longest economic recession. The nation did not regain its economic health until the Mexican War of 1846 and the California gold strike of 1848.

In 1923, the German economy collapsed under the burden of reparations imposed after the First World War. The German mark lost value by the minute. Paper money and postage stamps were continually overprinted in higher and higher denominations. Workers, paid twice a day, rushed to buy groceries before prices rose still further. A loaf of bread that cost 20,000 marks in the morning could cost 5 million marks by day's end. Restaurant prices went up while customers were eating. By mid- November 1923, the exchange rate reached 4.2 trillion marks to the U.S. dollar.

On September 3, 1929, the Dow Jones average reached a high of 381, bid up in a speculative bubble on borrowed money. The bubble burst the next day, and in stages the Dow fell to 41—a decline of 90 percent. The underlying economy was already weak, and the collapse of stock prices thrust the United States and the world into the Great Depression. Its effects were far-reaching. In Britain 25 percent of the population was out of work, and in parts of Scotland unemployment levels reached 70 percent. The Depression lasted throughout the 1930s, until rearmament spending spurred recovery in the approach to World War II.

In July 1997, Thailand's currency, the baht, collapsed, sending shock waves through the economies of Southeast Asia, Latin America, and Russia. The currency collapse and the recession that it caused ended the so-called Asian Miracle. Many people had believed—wrongly as it turned out—that a strong work ethic, emphasis on education, a high savings rate, and successful export industries guaranteed superior economic growth in the region.

During the late 1990s the NASDAQ composite index tripled in value, as investors bid up the price of American technology stocks. On March 10, 2000 the NASDAQ reached an all-time high of 5,049. But, driven down by 20 key stocks, the index lost two-thirds of its value over the next 12 months. The NASDAQ has yet to recover, but the American economy remains relatively strong, and unemployment is still below 5 percent. There is some confidence that policy makers can guide the economy to a "soft landing."

On a lighter note, you may be familiar with the cartoon character Hagar. In a recent cartoon Hagar, a Viking, went up a mountain to consult with a famous holy man. "O wise one," he asked, "what makes a man live alone in a cave, pondering the meaning of life." "Well," explained the holy man, "there was that little misunderstanding over some bank funds in Oslo!"

## **2. Economic and Financial Cycles**

These are just a few examples of economic and financial volatility and their causes. Economics is concerned with the production, distribution, and consumption of goods and services. Economic

cycles, as measured by indicators like gross domestic product, are fairly regular, typically lasting five-to-seven ten years. Financial markets, where currencies, securities, and other instruments are traded, provide the capital that supports the economy as a whole. Exchange rates, securities prices—and particularly options and commodity prices—often fluctuate more wildly than economic indices, although ultimately they too have an economic basis.

Business, at the local, national, and global levels, is one of the principal vehicles of human activity, providing the means by which we survive in modern societies. Economic activity is an expression of prana, “the infinite omnipresent manifesting power of this universe.” Prana, he tells us in *The Soul and Its Mechanisms*,

“is analogous to the activity of the consciousness principle, the Soul... an effect of the union of spirit or life, and matter or substance, and demonstrates as the energy of the form, as it produces cohesion, animation and sensitivity, carrying out divine purpose.”

We shall return to the subject of prana later in this presentation. Meanwhile, we note that, like every other manmade or natural process, economic activity ebbs and flows. It is no accident that the Tarot card representing cyclical manifestation is called the Wheel of Fortune.

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Economic cycles are not new. The book of *Genesis* tells of the seven years of plenty, followed by seven years of famine. It describes how the foresighted Joseph stored corn to feed the people of Egypt during the period of famine. Weather-related cycles still occur, and we are familiar with the devastation caused by prolonged drought in parts of Africa. Global warming may make such events more common and more widespread in the future.

Astrological influences must also be considered. As the Tibetan tells us, “Venus governs the second House, which is concerned with economics, the distribution of money...” We can expect that Venus’ progression through the zodiac and its alignments of with other planets will affect economic activity. Significantly, DK also reminds us that Venus “rules Taurus, the ‘seed house’ of illumination and the new emerging light.” We might want to ponder this association.

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However, most economic cycles are attributed to imbalance between supply and demand. In a typical economic expansion, confidence rises, credit is freely available, and demand increases for capital, raw materials, labor, and consumer products. Eventually, demand exceeds supply, putting upward pressure on prices. As inflation takes hold, confidence declines, lending agencies tighten credit, businesses contract, workers are laid off, and consumers buy less. Then, after a period of recession, inflation pressures ease, and a new cycle starts over again.

In the early stages of economic expansion the financial markets are upbeat, whereas the markets are depressed when a recession approaches. However, the financial markets are more volatile than the underlying “real” economy. Securities prices—and, still more so, option and commodity prices—are leading indicators of economic activity, and therefore are subject to more uncertainty. On the other hand, stock prices are not just surf on top of the economic wave. The financial markets have their own dynamics, which in turn feeds back on the economy.

Regardless of the health of the real economy, securities prices may be driven up in a speculative buying frenzy, fueled by what Fed Chairman Alan Greenspan called “irrational exuberance.” People jump on the bandwagon, swayed by media hype, overoptimistic profit forecasts, unreasonable market expectations, and disregard for historical precedents. But speculative bubbles inevitably burst. Bad news or even rumors trigger overreaction, panic selling and the collapse of market prices.

### 3. Impact of Volatility

People normally benefit when the economy expands, but they are during period of recession. Employees lose their jobs, businesses are forced to close, investment values are eroded, tax revenues decline, and there is less money to support charities. On the other hand, even recessions are not all bad. Periodic downturns help eliminate industries and organizations that are no longer relevant or competitive, freeing up scarce resources for more efficient use. And downsizing may provide the incentive for employees to relocate, retrain, and reevaluate career goals and priorities. Fewer people are affected by fluctuations in the financial markets, but again the effects of volatility are mixed.

Certain factors can destabilize the economy or the financial markets. One factor is the increasingly short-term focus of decision makers. Business managers are evaluated annually or even quarterly, and they must “look good” at each evaluation. Frequent evaluations encourage short-term decisions, even if they conflict with long-run survival and growth. Managers may delay effective action until it is too late or may be reluctant to disclose dark clouds on the horizon. Similarly, companies must show favorable quarterly results to avoid negative evaluation by securities analysts. Two or three unfavorable quarterly earnings reports can lead to downgrade of the company’s bonds, a stock sell-off, and clamor for the replacement of senior managers.

It is popular to blame the volatility of the financial markets on the actions of international cartels, speculators, arbitrageurs, options traders, short-sellers, and other bogeymen. Sometimes people do exploit market fluctuations for competitive, political, or other self-serving purposes. On the other hand, as Carl Jung would have told us, bogeymen are nothing else than the dark sides of our own natures.

Furthermore, it may be hard to draw a line between speculation and investment. Sir Ernest Cassel—financial adviser to King Edward VII and, at the time, the richest man in Britain—reflected on his long career. “When I was young,” he said, “people called me a gambler. As the scale of my operations increased, I became known as a speculator. Now I am called a banker. But I have been doing the same thing all the time.”

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Other factors have a stabilizing influence on the markets, and there is general consensus that attempts should be made to reduce the severity of economic cycles. Governments may use economic and fiscal policies to stimulate a weak economy or cool an overheated one. However, well-intentioned government policies can sometimes backfire. For example, a sharp increase in tax rates in 1929, when the U.S economy was already weak, helped precipitate the Great Depression.

Central banks also wield considerable power through manipulation of the money supply and interest rates. Increasing the total quantity of money or reducing interest rates can stimulate economic growth, while tightening the money supply or raising interest rates can cool the economy.

Interaction between economic events in different countries is not new. The British banking house of Baring Brothers failed in the financial crisis of 1890, at least partly because of a revolution in Argentina. The bank failed again, one hundred years later, because of irregularities in currency speculation in Southeast Asia.

However, the interdependence of national economies is steadily increasing, and a global response is often needed, particularly to avoid currency crises. The world’s most powerful nations have important responsibilities in this regard, as do organizations such as the International Monetary Fund and the World Bank. The Tibetan reminds us, and I quote from *Esoteric Psychology II*, of “the prime importance of each nation realising its responsibility to all other nations, and the interrelation of all parts of the life of our world. This realisation will bring about a reciprocal interplay in the field

of economics, for this is the most important field at this time. Practically all world problems and differences are based upon an economic situation.”

If government and central banks have been successful in reducing the severity of economic cycles, there is little evidence that the volatility of financial markets has been controlled. Many people believe that it is getting worse.

## 4. Pairs of Opposites

Economy activity and securities prices are driven by tensions between opposing forces. These forces comprise pairs of opposites that can be represented well by the symbolism of the Kabbalah. Central to Kabbalistic teaching is a diagram called the Tree of Life. It represents the descent of divine energy through 10 spheres which depict levels of consciousness or types of experience.

The three spheres on the right-hand pillar of the Tree of Life express positive forces. Chokmah represents primal creative potency, Chesed, represents expansive generosity, and Netzach represents desire and optimism. Those on the left-hand pillar express negative forces. Binah represents containment and limitation, Geburah represents aggressive confrontation, and Hod represents cautious deliberation. Not unexpectedly, in a people-centric system, there is a large psychological element in all of these.

Humanity is ruled by the 4th ray of Harmony through Conflict, and, as in so many situations in human affairs, our basic goal is to resolve the pairs of opposites. Failure to find what the Buddha called the Noble Middle Path inevitably leads to pain and suffering. However, it is not enough simply to neutralize the opposing forces. Rather, we need to reach beyond them to seek creative synthesis at a higher level—to create a more perfect reality that transcends the original source of tension.

Over the long term, a rough equilibrium is achieved among economic and market forces. But in the short run one or other of the forces may hold sway, giving rise to periods of expansion or contraction, or rising and falling market prices. For example, the potent thrust of Chokmah may be in the ascendancy for a while, but it is opposed and eventually overcome by the reaction of Binah. The expansiveness of Chesed is eventually overcome by the greed of Geburah. Or the exuberance of Netzach is overcome by the caution of Hod.

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These insights suggest two approaches to the problem of economic and financial volatility. First we should look at the psychological forces at work and try to find ways to avoid extremes, particularly in the financial markets. The pairs of opposites are primarily an expression of the duality of the astral plane—the plane of emotion and desire—but their resolution must occur at a mental level. As the Tibetan tells us in *Initiation Human and Solar*:

“The discriminative faculty of mind, which is the distinctive quality of humanity, (enables) him, through the balancing of the pairs of opposites, to reach his goal, and to find his way back to the source from whence he came.”

We can learn much from studying the laws of the market, and we ignore the lessons of history at our peril. In the 1990s it was fashionable to claim that emerging technologies freed the so-called “new economy” from time-honored laws of securities valuation. By the end of the decade it became clear that this was just idle talk. Things do change over long periods of time, but 100 years of data show remarkable consistency.

Optimism should not be allowed to turn into reckless, irrational exuberance, but excessive pessimism can be equally harmful—and it is usually unfounded. Prices cannot go up for ever; neither will they go down forever. People may forget that winter follows summer, but they also forget that springtime

follows winter. The business press, cable networks, and Internet services have a responsibility to share news—and now they can disseminate information almost instantaneously. But they also have a responsibility to exercise good judgment, downplay rumors, and promote informed decision-making.

We said that managers should think long-term, and the same is true of investors. Fear, greed, and opportunism increase market volatility and injure those least able to protect themselves. There are many opportunities for legitimate investment. But those who engage in get-rich-quick schemes, such as arbitrage, derivative trading, and commodity speculation, can expect to get poor just as quickly. The markets are harsh teachers for unwary students.

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The second approach is to consider what kind of balance we want to achieve between the opposing forces. Rather than trying to iron out financial market fluctuations altogether, perhaps we should aim at a steady rhythm in which prices rise and fall in moderation. In another context involving pairs of opposites, the Tibetan predicts that after a period characterized, by what he calls, “cycles of chaos, of experiment, of experience and of comprehension” there will come “a period of rhythm and of stabilisation wherein the point of balance is achieved.”

The steady rhythm of the seasons, is beneficial to life on the planet, and is typical of many natural processes. A corresponding predictable, “seasonality” in the financial markets might prove equally beneficial, so long as we can ensure that “summer” does not get too hot, nor “winter” too cold.

Earlier we saw that economic activity is an aspect of prana, and we should also note that pranic energy rises and falls in a steady rhythm. In *Treatise on Cosmic Fire*, the Tibetan speaks of the absorption and distribution of prana, commenting that “While general instability exists, the reception of prana is unstable and distribution inequable.” However, he continues, and I quote:

As the point of race equilibrium is reached, so planetary equilibrium will likewise be attained, and... equilibrium... between the solar planets. When they attain a mutual balance and interaction then the system is stabilised and perfection reached. The even distribution of prana will parallel this balancing in the man, in the race, in the planet and in the system. This is but another way of saying that uniform vibration will be achieved.

Perhaps we can manage economic activity and the financial markets to produce the kind of dynamic equilibrium and uniform vibration that the Tibetan envisions.

## **5. Concluding Remarks**

Economic expansion and contraction, as well as gains and losses on financial markets, do not occur completely outside the influence of individual, group, or national karma. However, prudence is a major factor in avoiding hardship. Like Joseph, we should make provision for hard times ahead. To run up mountains of consumer debt during periods of expansion is to invite disaster when the next recession hits.

On the other hand, individuals, groups, and nations all have a responsibility to help those who cannot help themselves or who are caught in situations not of their own making. The energy of Chesed should be expressed, not only in a generous supply of venture capital, but also in the alleviation of human need. Interestingly, the Tibetan reminds us that compassion “is essentially the right use of the pairs of opposites.”

Finally, we should examine the role that money plays in our lives. The more important we allow money to become, the more likely we are to get hurt in a recession or stock market downturn. Sufficiency, rather than extravagance, should be the goal of successful living. Money can be a tool for the expression of higher values and an instrument of group consciousness. The world of

industry, commerce, and finance provides learning experiences, challenges, and opportunities for personal growth. It also provides rich opportunities for individual and collective service.

And to return one last time to the Kabbalah, it is significant that Chokmah and Binah, and Chesed and Geburah are all resolved, on the equilibrating middle pillar, in the redemptive love of Tiphareth. And Netzach and Hod are resolved in the creative activity of Yesod and Malkuth. These symbols may show us how to exploit creative tension between the opposing forces, and realize the more perfect reality in which economic activity, the financial markets, and prana all attain a dynamic equilibrium.