

## The Postmodern Retrogression, I

*Initially the postwar offspring of disappointed European intellectuals who had embraced German fascism or French communism, "postmodernism" has achieved more than passing distinction in American academia even though its notions seem profoundly contrary to the chief tenets of American civilization. Its appeal would seem to be greatest for frustrated utopians, especially in educational policy circles. Therein lies the danger.*

Even if you have little idea of what "postmodernism" describes, you may already have encountered one or more products of its thinking. If not, you almost surely soon will. They will arrive in the persons of public school (even college) graduates who will be pushed into the "real world" without the effective ability to read, write, or perform simple arithmetic, measure risk and reward, or judge right from wrong — in short, without an understanding even of the most fundamental responsibilities of employment or citizenship. We could be the first advanced technological society in history to produce a new generation more ignorant than the last.

Although many factors are involved, the educational views that have fostered this retrogression are broadly consistent with so-called postmodern notions. From whole language and whole math to multicultural history and deconstructionist literary criticism, traditional curricula have been abandoned in favor of teaching methods that eschew individual intellectual attainment, reject standard benchmarks of performance (such as grammar, spelling, and correct answers to math problems), and discourage the acquisition of knowledge crucial to individual decision-making (i.e., to distinguishing correct from incorrect, more useful from less useful, better from worse, etc.) in favor of "collective" learning that disregards the behavior of individual students but views all intellectual effort and attainment as a group result.

With few exceptions, the "hard sciences" thus far have been largely immune to such views, and for good reason: the results are readily observable. One doubts that postmodern open-heart surgery or postmodern aeronautical engineering are

apt to catch on. But such notions today do influence a wide range of humanities and behavioral science curricula — and raise problems that are far beyond the scope of this discussion. It is our intent, however, to address in these *Reports* the postmodern influence on a number of fields of inquiry over the course of the coming year. We begin with a brief inquiry into "postmodern history" in this issue.

### *What Is Postmodernism?*

Given the range of sometimes divergent notions that have been termed "postmodern," it does not seem possible to specify precisely what that name describes. As its practitioners in various fields largely speak for themselves, however, and as its origins are described at somewhat greater length below, it may pay to be very brief.

Greatly boiled down, postmodernism as originally enunciated in its European setting seemed to embrace a number of deeply pessimistic propositions, among them: that progress in the modern sense, which relied on the application of science to human endeavor, is no longer possible; that insofar as the former applies, there is no further point in discriminating between alternatives of any sort (all are equally dismal); and that genuinely "purposeful" or "meaningful" endeavor no longer is possible, although residual texts, and only texts, may reveal a variety of understandings of the ways of the human squabble — again, all pretty much equally useless (and therefore equally valid). Such views were applied most fully in the field of literary criticism by the French deconstructionist Jacques Derrida and were introduced in this country mainly through the efforts of the late Paul de Man

at Yale. Although it seems a contradiction in terms, postmodernism's American variants tend actually to be wildly optimistic. And so to history class.

### *Postmodern History*

The ascendancy of "multicultural history" in American classrooms, which the proposed National History Standards seem implicitly to endorse, has exposed to the public eye a view of the past consistent with one strain of postmodern thinking. In greatly distilled form, it goes roughly as follows: inasmuch as different cultures (like texts) have been deemed by others as worthy of study and understanding on their own terms, they also deserve *acceptance* on their own terms. One culture is as "good" or "valid" as the next and therefore the triumph of one particular social order over any other is reason not for celebration (or even detached observation), but rather lamentation, no matter what the circumstances.

In practice such an outlook has tended to result in history that is not so much relativistic, as implied in the first part of the above credo and as most of its critics assert, as unabashedly normative. For the new textbook dogma turns the traditional account on its head. To a much larger extent than prior revisionist history, the new textbooks either have banished backstage the traditionally exalted "dead white males" of European heritage or else cast them prominently as villains. At the same time, it has tended to thrust into the limelight as unsung heroes all variety of hitherto obscure characters and to celebrate uncritically the virtues of formerly neglected native cultures.

Today's history students might not learn much new about George Washington, Andrew Jackson, or Thomas Edison other than that the first owned slaves, the second owned slaves *and* slaughtered Indians, while the latter opened the technological door to the destruction of the environment. They learn much more than their predecessors, however, about the gentle and peace-loving native Americans whose ceremonies sanctified their alleged reverence for the earth. The concurrent practices of perpetual warfare, slavery, ritual mutilation, torture, human sacrifice, and

## The Original Postmoderns

"[Of eight European writers of the 1930s, 1940s and 1950s who had expressed variants of the notion of posthistory], two had been Communists when they endorsed the thesis (Alexander Kojeve and Walter Benjamin) while the other six had been either German fascists (Martin Heidegger, Ernst Jünger, Arnold Gehlen, Carl Schmidt) or Nazi collaborators during the Second World War (Bertrand de Jouvenal and Hendrik de Man, uncle of Paul)....

"As it was expressed...there were two major components of the posthistory thesis. The first was a philosophy of history; the second a critique of modern society. The philosophy of history was expressed most clearly by Arnold Gehlen, who had been a prominent social psychologist under the Third Reich and who became influential as a conservative anthropologist and cultural critic in West Germany during the 1950s and early 1960s. Gehlen argued that, just as the history of religion had come to an end, with a finite number of major faiths to which no more could be added, so the history of ideology had unravelled all its possibilities. No more general philosophies...were conceivable....no further development of either art or politics was possible...literature, painting and music had exhausted their potentialities.

"The reason...was that history lacked a heroic subject. Europe once possessed an epoch-making spirit. This baton had been most recently carried by the German people but, with their defeat in 1945, all that was now over. Postwar Germany, Gehlen argued, had become Americanized which, as Goebbels had warned, had destroyed the heroic German spirit and left its people no better than other races—a mass reduced to an impersonal 'they' or 'id.' Without a heroic subject, history had come to an end....

"In France...similar causes produced similar responses, only with a delay of more than two decades [i]n the wake of events of 1968—the failure of the student-led revolts and the desertion by French intellectuals from the Communist Party."

From *The Killing of History*, pp. 180-182

cannibalism — not to mention wanton destruction of entire ecosystems — tend to get left out altogether, receive only brief mention, or are rationalized in "cultural context." (At various times and places, they also gambled, smoked, did drugs, swapped wives, sold their children, and engaged in promiscuous sex.)

At its most unvarnished, this type of history tends toward the crudely polemical. In recent years the more preposterous accounts contained in the most blatant of various ethnocentric histories usually have sparked not only scholarly refutation, but political controversy as well. Viewed from a somewhat different perspective, a number of such works seem poignantly reminiscent of a strain of "history" that became a staple of stand-up routines in the United States at the height of the Cold War in the 1950s and 1960s. Namely, as then (unwittingly) given in comically ethnocentric Soviet accounts of the past — and no matter what the subject or period under consideration — it was a *Russian* who "invented it," "did it first," or "contributed most" to its accomplishment.

From this account, it was nearly impossible to escape the inference that Mother Russia was the real cradle of civilization.

The predictable result of this type of instruction whenever and wherever it is given is that whatever "knowledge" is imparted to students is very apt to be worse than useless. Given today's history curricula, it ought not come as a surprise that the current generation of American students — whatever they may think they know — is astonishingly ignorant of the main characters as well as the principal events, ideas, and grounding documents that shaped and now govern the republic (most don't know what a republic is). It is dismaying, for example, that South Korean schoolchildren reportedly know more about the American Civil War than do pupils in our own classrooms.

### *The Postmodern Philosophy of History*

Be that as it may, a far more sophisticated application of postmodern thinking provides the basis for a *philosophy of history* that, should it ever become widely adopted, would profoundly challenge the

most fundamental notions that have driven the Western revolution in human affairs during the past three centuries, including especially the scientific pursuit of knowledge. It is beyond the scope of this brief discussion to trace at length the intellectual roots of so-called "posthistory" (*posthistoire*). It may be useful, however, to sketch in bare outline some of the major features that seem to have influenced its development and to describe what seem to be some of its principal tenets.

In brief, "posthistory" seems to derive from Hegelian notions of teleology — i.e., that history irreversibly proceeded on a course from beginning to end — and, building subsequently on the ideas of Friedrich Nietzsche and Martin Heidegger, embraced the view that the end of history had, in fact, arrived. But unlike the peculiarly American — and optimistic — version of that event celebrated by Francis Fukuyama in his bestselling *The End of History* (and discussed in the pages of these *Reports*<sup>1</sup>), the patriarchs of posthistory subscribed to a profoundly dark conviction — just as they themselves seem to have had profoundly dark pasts. In the view of the German historian Lutz Niethammer, "the thesis of posthistory is not about the literal annihilation of the world through, say, nuclear warfare or environmental catastrophe. Rather, it is about the end of meaning or purpose in history. Posthistory is a 'culturally pessimistic inversion of the optimism of progress.' It holds that the teleology of history has reached an end, but has concluded in a form of social life that is lived without seriousness, struggle or objective: an anti-utopia."

As related in Keith Windschuttle's highly recommended *The Killing of History*, the original architects of *posthistoire* had been mainly either former Nazis or Nazi collaborators whose crushed ambitions spawned profound pessimism and general contempt for human endeavor of any sort — most particularly for popular sovereignty (see box). Posthistory is, in Windschuttle's view, "a particularly unpleasant form of intellectual elitism that exhibits both a complete disdain for ordinary people and an unwillingness to regard them as individuals. Its adherents contend that the age of great ideas and of heroic causes such as Nazism is over, replaced by a boring, featureless and, in Heidegger's oft-repeated word, 'destitute' world peopled by mediocrities."<sup>2</sup>

It thus seems highly ironic that insofar as postmodern notions (of literature, his-

<sup>1</sup>See *Research Reports*, October 2, 1989.

<sup>2</sup>See Keith Windschuttle, *The Killing of History*, New York, The Free Press (1996), pp. 180-181.

tory, or any of the behavioral sciences) have gained currency in American circles, it has been mainly because they have been viewed as intellectually daring exploits of the academic *avant-garde*. Windschuttle's assessment seems far closer to the mark, to wit: "In this light, we can see those English-speaking academics who are investing their time, energy and personal endorsement in the concept of postmodernism as sorry figures indeed. They thought they were participating in an exciting and new theoretical movement. Instead, all they are producing, albeit unwittingly, is an English language version of a French theory from the 1980s, which itself derives from a German thesis from the 1940s and 1950s that was originally developed by a group of ex-Nazis to lament the defeat of the Third Reich." A more interesting question is: why would English-speaking academics be interested in postmodern ideas in any event? After all, we *won* the war.

### *A Refuge for Frustrated Utopians*

At bottom, the attraction of postmodern ideas for American radical intellectuals seems plausibly linked to another of Windschuttle's observations respecting the origins of posthistory: namely, that in Europe it was mainly "a pessimistic reaction to the end of utopian politics" at mid-century. In that setting, it came on the heels of the failure of two markedly divergent utopian visions: on the one hand of an eternal Reich with a heroic leader and a population of Nietzschean supermen, on the other of an anti-capitalist, anti-bourgeois workers' paradise.

Viewed broadly, it seems understandable that at least some elements of postmodern thinking might logically be attractive to the adherents of failed utopianism in whatever setting — including a late twentieth-century American one. In the wake of the collapse of dirigiste regimes around the world and accompanying disclosures of the misery they spawned, it would seem increasingly difficult for anyone to resist the evidence of what utopian experiments actually yield.

For the past half century, the observable results of attempts to direct human behavior according to some preconceived notion of what people ought to think and do have emphatically not been harmony and abundance. Rather, they have embraced such atrocities as concentration camps, mass exterminations, unspeakable medical experiments, genocide, poverty, and starvation. They also have fostered immeasurable enmity within and between peoples and a potential for conflict that can know no end. It seems incredible that

at least a portion of even the most dedicated of radical utopian American intellectuals could fail to escape the realization that their visions of a better world have been irredeemably flawed. For these, then, what to think and what to do?

An obvious course would be to abandon notions of utopia altogether, and to seek to develop solutions to human problems with the understanding that humans will never be perfect and the solutions will never be absolute. As our long-time readers know, this view has guided this Institute's pursuit, via scientific procedures of inquiry, of "warranted assertions" that may serve as a basis of informed action. Of course, even with such an approach human progress is by no means certain. But it would seem far more useful than the alternatives offered so far. It

is described by the name *modern*.

As we have observed on many occasions and in many contexts, however, the "quest for certainty" seems an enduring type of human behavior. For those who for one reason or another must persist in the pursuit of the perfect social order, the realization of the virtually certain failure of utopian visions based on notions of human perfectability would seem to provide a single logical alternative. Namely, if it is not possible to shape human attitudes and behavior to accommodate an ideal norm, then a perfect social order (in its most extreme expression) may be achieved only through anti-utopia wherein all attitudes and behavior are deemed equally valid — in short, the postmodern society absent neo-fascist pessimism. Stay tuned. □

## STOCKS AND INVESTOR PORTFOLIOS

*Partly as a result of the record gains in stock prices, households now hold a larger share of their financial assets in stocks than ever before.*

When the current bull market in stocks began in 1982, the market value of equities was low in relation to various measures of the intrinsic value of U.S. businesses. In *Research Reports* dated November 10, 1997, we reviewed a number of these measures. We pointed out that the total market value of all the equity in nonfinancial corporate businesses peaked in relation to their aggregate net worth in 1968. It declined sharply when stock prices crashed in 1973-74 and it remained low through the mid-1980s. Similarly, in relation to measures of nonfinancial corporations' income flow, such as dividends and cash flow, the market value of their equity reached relatively high multiples in the 1960s but fell to relatively low multiples in the 1970s and early 1980s.

Since the mid-1980s, however, the relative levels of equity valuations have increased substantially. As a percentage of net worth, the market value of nonfinancial corporations' equity began to increase in 1984, and since 1991 the rate of increase has accelerated. By the end of 1996, this percentage had edged past the 1968 peak to a new postwar high. This new high is evident whether net worth is measured according to the "book value" or the "replacement cost" of corporate assets.

In relation to dividends, the market value of nonfinancial corporate equity has increased to the high end of its historical range, although it is not at a new high. In 1996, stocks were valued at roughly 33 times the amount of annual dividends. This is the highest multiple since stock prices

began to rebound from the 1973-74 bear market, but it is less pricey than in the 1960s, when the valuation of equities sometimes exceeded 40 times the amount of dividends. The value of equities has fluctuated in a much narrower range over the years in relation to cash flow, but the trend of this multiple is broadly similar. Equities have traded at a rising multiple of cash flow since 1984. In recent years this multiple has reached its highest level since before the 1973-74 bear market, but it remains below the multiples reached in the 1960s.

The increase in the ratio of the market value of equity to corporate net worth is not entirely due to higher stock prices. Until recently, a slowdown in growth of net worth was also a factor. Partly as a result of a rash of highly leveraged buyouts, in the 1980s equity was replaced by debt on corporate balance sheets. There was an unprecedented increase in the amount of corporate equity retired or repurchased by businesses. Between 1984 and 1990, the amount of equity withdrawn by nonfinancial corporations exceeded new issues by \$640 billion. The huge scale of this retirement of equity is evident in Chart 1 on the next page, which shows the net issuance of corporate equity as a percentage of the total market value of equities. At the same time, the increase in corporate borrowing raised the ratio of debt to net worth to a new high in the 1980s. These trends reversed in the early 1990s — net issuance of equity turned positive and leverage ratios leveled off.

However, during the early 1990s the growth of net worth was dampened by another factor — the collapse of commercial real estate values.

More recently, real estate values have rebounded, and corporate borrowing has remained moderate. Corporations are once again withdrawing more equity than they issue, but on a much smaller scale than in the 1980s. (See Chart 1). Corporate net worth is growing more rapidly. Thus, in contrast to the 1980s and early 1990s, the recent increase in the ratio of the market value of equity to corporate net worth appears to be overwhelmingly due to higher stock prices.

One result of the twin trends of sharply higher stock prices and the reduced rate of repurchases and retirements of equities is that the composition of investor portfolios has changed dramatically in the 1990s. As Chart 2 shows, corporate equities accounted for roughly 20 percent of households' financial assets during much of the 1970s and early 1980s. This proportion increased somewhat in the second half of the 1980s as a result of rising stock prices, but the increase was moderate because the rise in stock prices was partly offset by the large volume of corporations' repurchases and retirement of stock shares. Since 1990, however, the percentage of households' financial assets that is held in common stocks has increased rapidly, rising from 20 percent in 1990 to 41 percent at the end of the second quarter of 1997.

Households now hold a larger share of their financial assets in corporate equities than they did in 1968, when they accounted for 38 percent of financial assets. Partly as a result of the record gains in stock prices in the past few years, equities now account for a bigger share of households' financial assets than at any other time in the post-war years. Nearly all of households' financial assets other than equities are fixed-dollar claims of one sort or another, such as bonds and savings accounts.

At the same time, stock ownership has become more widespread among households. According to the Federal Reserve, the percentage of households that own equities, directly or indirectly, increased from 32 percent in 1989 to 41 percent in 1995. The figure is probably even higher today.

To a far greater extent now than in the past, households' holdings of corporate equities are controlled by professional money managers. In earlier decades, direct holdings of stocks far exceeded indirect holdings (via private pension funds, mutual funds, government employee retirement funds, and other financial intermediaries). In the 1950s, investors held over 90 percent of their equities directly.

Chart 1  
**Net Issuance of Corporate Equities**  
(Percent of Market Value of All Equities)

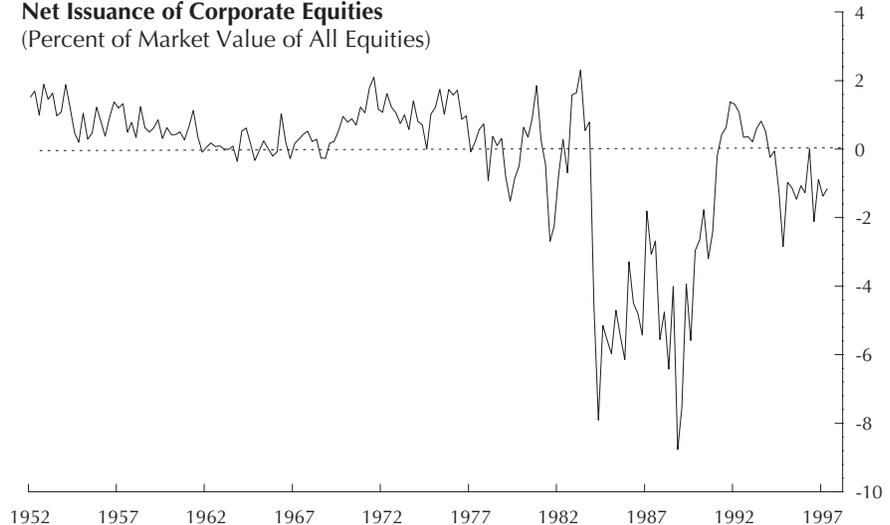
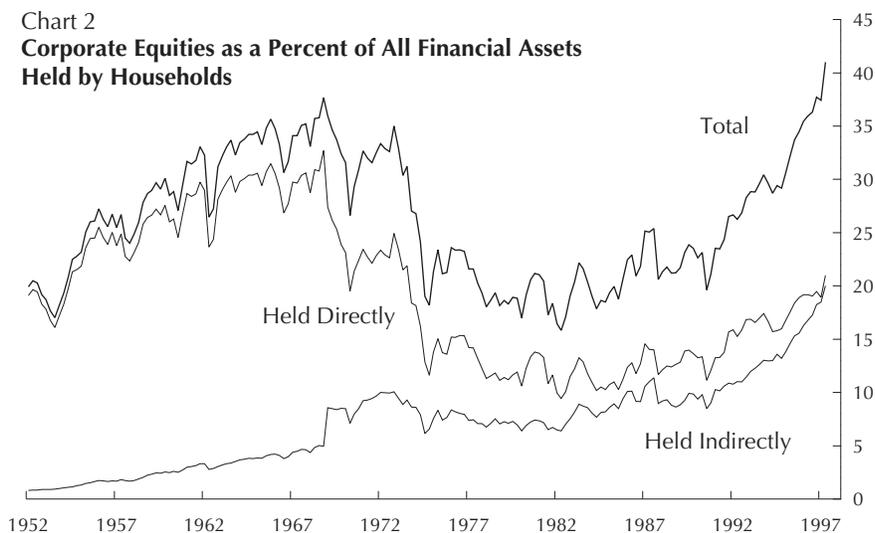


Chart 2  
**Corporate Equities as a Percent of All Financial Assets Held by Households**



Source: Federal Reserve Board, *Flow of Funds Accounts*: Data through Q2, 1997, not seasonally adjusted.

This share decreased steadily in subsequent decades, reflecting the growth of retirement funds and mutual funds. By 1997, the equity holdings of households were split evenly between direct and indirect holdings. (See Chart 2.)

In sum, a larger portion of households' financial assets is invested in equities than ever before, roughly twice as much as a decade ago. At the same time, the valuation of equities relative to fundamental measures of corporate worth is high by historical standards. Households are willing to hold a larger share of their portfo-

lios in stocks than in the past, and are willing to pay a larger premium to do so. In part, this reflects the greater availability of relatively low-cost means of investing in the market. Today, an investor can put \$100 in a diversified pool of stocks via a mutual fund, whereas 20 years ago the most readily available option was a savings account. Investors, both professional and individual, also are increasingly aware that for the past 15 years, as well as during other periods, the returns on stocks have been higher than those on fixed-dollar claims or on tangible assets such as housing. □

**PRICE OF GOLD**

	1996 Jan. 11	1997 Jan. 9	— 1998 —	
			Jan. 2	Jan. 8
Final fixing in London	\$399.00	\$356.55	\$288.00	\$279.10

**Research Reports** (ISSN 0034-5407) (USPS 311-190) is published twice a month at Great Barrington, Massachusetts 01230 by American Institute for Economic Research, a nonprofit, scientific, educational, and charitable organization. Periodical postage paid at Great Barrington, Massachusetts 01230. Sustaining memberships: \$16 per quarter or \$59 per year. POSTMASTER: Send address changes to **Research Reports**, American Institute for Economic Research, Great Barrington, Massachusetts 01230.