

THE ROLE OF SELF-DECEPTION IN THE 2008 FINANCIAL CRISIS:  
IMPLICATIONS FOR BUSINESS ETHICS

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ABSTRACT

Asking who is to “blame” for the 2008 financial crisis may be an irrelevant question when one considers the significant, but largely unrecognized role of self-deception. Research conducted by experimental economists strongly suggests that human psychology interacting with a bull (inflationary) market practically guarantees unwise risk-taking, even with knowledge of business cycles. The purpose of this essay is to examine the implications for business ethics and ethical theories which assume a conscious, willful decision-making process, in light of unconscious behaviors due to surprisingly ubiquitous self-deception. The well-documented self-deception processes are correlated with the judgmental polarized worldview, which is based on leaps of abstraction mistaken as facts. Judging human behavior as blameworthy exacerbates problem behavior by actually encouraging recidivism. This research serves as a foundation to recommend a “no-fault” restorative justice approach to future regulation.

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Who is to blame for the 2008 financial meltdown? “The search for scapegoats has been intense, and many contenders have emerged,” observed a Wall Street insider and *Atlantic Monthly* contributor (Blodget, 2008: 54). His list, like *Time Magazine*’s, included some obvious targets ranging from Wall Street swindler Bernard Madoff, to predatory lenders, to the SEC and Alan Greenspan, to the leaders of now-defunct financial institutions, and even extending to both former presidents (Fox, 2009). All of the prevailing explanations have some truth to them. However, Blodget adamantly maintained that the business cycles of bubbles and busts are the product of more than just bad faith, incompetence, or rank stupidity; the interaction of human psychology with a market economy practically ensures they will form. His list of targets for blame insightfully included “You and Me”: that “we got greedy, we went nuts, and *we heard what we wanted to hear*” (2008: 54) (emphasis added). Despite mounds of evidence regarding the periodic business cycles of boom and bust, the lure of getting something for nothing overrides our rational abilities under certain conditions (Postrel, 2008). Even experienced, highly educated investors fall for long-running inflationary markets “because it’s different this time” (Blodget, 2008: 56).

I propose that self-deception is to blame – if we must use the term “blame” when referring to cause – for the ongoing financial crisis. Many of the questionable or outright deceptive practices that contributed to the crisis could not have flourished on such fertile ground if self-deception were not so successful in every significant human interaction.

The purpose of this essay is to lay a foundation for the role of self-deception in the financial crisis and examine some implications for morality and business ethics. Self-deception as referred to in this essay is a system of self-protective defenses against perceived psychological pain that begins to develop in childhood, becomes more sophisticated in adolescence, and unconsciously continues into adulthood in the absence of specific interventions to expose and reduce it. Self-deception produces an exaggerated or even fraudulent positive self-image, as well as blind spots regarding one’s own shortcomings and those of other people. It causes otherwise intelligent people to perceive the world through selective perception skewed by biases, rendering them highly suggestible, and under certain conditions, prone to believing sheer fantasy. Self-deception is ubiquitous, yet nearly invisible due to our tacit collusion with one another to preserve our most cherished illusions.

People generally assume that we make conscious, rational, willful decisions (Pronin, 2006; Sigmon & Snyder, 1993; Tavis & Aronson, 2007). Yet in light of the research on human cognitive functioning, one can make a convincing case that many of the “decisions” of leaders, professionals and home owners during the long-running inflationary bubble flowed from largely unconscious and surprisingly ubiquitous self-deception processes. There is growing research pointing to a connection between the psychological pain that motivates our self-deception defenses and the impact of the judgmental polarized worldview, which is a subjective layer of judgments that we humans project onto nature (Bowen, 1992; Senge, 1990; Warner, 1997). Of particular

interest to business ethics is the realization that judging human behavior as blameworthy may actually exacerbate the problems by *unwittingly provoking more of the same behavior* and increasing the use of self-deception defenses (Burris & Navara, 2002; Johnson & Burroughs, 2000; Leak & Fish, 1989; Tavris & Aronson, 2007). Equally important, pinpointing the blame on individuals distracts from a deeper inquiry into the systemic problems driving behavior that can only be corrected at the systems level (Senge, 1990).

These ideas form the foundation for recommending a “no-fault” restorative justice view of behaviors that flow from self-deception. Rather than viewing ethics as dealing with moral problems in the sense of pinning blame for harmful behavior and applying judgments as disincentives to such behavior, ethics can be viewed as a judgment-neutral system of principles and recommendations designed to curb the harmful effects of unconscious and systems-driven human activity. A plethora of psychological knowledge can assist us in forming an intelligent and compassionate ethical framework with which to navigate our way through the financial crisis now and to construct regulation for the future to protect us from our own unconscious behaviors.

### THE DYNAMICS OF SELF-DECEPTION

How is it even possible to deceive oneself? Many people dismiss self-deception altogether as impossible. When self-deception is conceived of as somehow lying to oneself or deliberately distorting one’s own perception, yet simultaneously not knowing that one has done so, an irreconcilable paradox appears that boggles the rational mind. Approaching self-deception purely from the perspective of the rational mind, however, is insufficient to refute the phenomenon. Once we examine the research stretching over the past 50 years from various psychosocial perspectives, we begin to realize that we can only ignore the very real phenomenon at our peril – because we will be deceiving ourselves. This section presents a representative sample of the literature in order to overcome our understandable reluctance to recognize how pervasive self-deception is, and more to the point, how even “You and Me” are duped by our own self-deception.

Alfred Mele (2001) exposes the weaknesses of three rational approaches to explaining self-deception. The lexical approach starts with a definition of “deceive” or “deception” using the dictionary or common usage as a guide and then employs it as a model for defining self-deception. Example-based approaches scrutinize representative examples of self-deception and attempt to identify their essential common features. The theory-guided approach searches for a definition that is guided by commonsense theory about the etiology and nature of self-deception (2001: 5). Each of these explanations ignores the findings of cognitive and neuropsychological research and looks at self-deceived behavior at face value only, isolated from the long, complex developmental processes that form the structures in the brain that participate in self-deception.

While the findings from the earliest Freudian case studies have been replicated by numerous researchers, there is disagreement over theories that explain the cause of self-deception. Lockie (2003), for example, argues that only some form of psychodynamic theory adequately explains the “why” or the motivation behind self-deception; the selective attention theme only explains the “how”. On the other hand, Patten (2003) suggests that at least some forms of self-deception do not have motive at all. False

beliefs about our own reasons for acting are formed in much the same way that we acquire false beliefs about the motives of others. These non-motivated biases lead us to draw mistaken inferences about our own motives. Under certain conditions the mind basically makes up explanations with which we unquestioningly agree (2003: 231).

Shapiro (1996) defines self-deception as the disjunction between what one feels or believes about something and what one *imagines* one feels or believes. He resolves the apparent paradox by showing that it is not necessary to first unconsciously know what we must not consciously know; it is only necessary for its presence to be signaled in some way while it is still in incipient form. The individual's character or personality is such a regulatory monitoring system. According to one's character and its organization of attitudes, the individual will react with some form of discomfort to the incipient presence of an idea or feeling which is inimical to him or her (1996: 786).

The literature attempting to define self-deception reveals an entire continuum, ranging from temporarily resisting “connecting the dots” that would lead to an unwanted understanding about oneself, to those deeper, unconscious defense mechanisms linked to all forms of psychopathology (Mele, 2001; Shapiro, 1996). Thus, the real argument among serious researchers is no longer “does self-deception exist?” but rather “what causes self-deception?” For purposes of discussion, I assume that the phenomenon exists and that there is a continuum of causes. Self-deceptive behaviors caused by physiological abnormalities or the extremes of psychopathology are not discussed; the focus is on the middle range consisting of the everyday, pervasive self-deception that is relevant to the recent financial crisis.

The perspectives from four psycho-social disciplines are presented in the following sections with enough detail to lay a convincing foundation for self-deception as ubiquitous at both the individual and societal levels. The disciplines selected are not exhaustive, but for purposes of this essay include: philosophy, cognitive psychology, neuropsychology, and systems theory. Examples from the financial crisis are used to illustrate the role of self-deception and how it works almost invisibly in our everyday affairs. Only an integrated, multi-disciplined view of a phenomenon as complex and subtle as self-deception can assist us to understand how to regard it from a moral standpoint and how to reduce it toward making ethical decisions.

### The Philosophical View

Self-deception mechanisms, by definition, are successful and are therefore hidden from consciousness. Thus the first task is how to make self-deception visible. Arbinger Institute is an organization formed around the ideas of C. Terry Warner, who holds a Ph.D. from Yale University and a professorship in philosophy at Brigham Young University. They publish best-selling books such as *Leadership and Self-Deception* written in compelling, story form. Arbinger Institute has found that as readers work through the issues with the protagonist of the story, they are craftily led to perceive their own self-deception and acknowledge it *without provoking defensive denial*, the chief mechanism by which we hide evidence of self-deception from ourselves.

In the article *Intellectual Foundations*, Warner (1997) proposes a theory that self-betrayal is what leads to the self-deception process. Self-betrayal is defined as an act in which one does what one feels to be wrong or fails to do what one feels to be right; in

short, one goes against one's own fundamental moral commitments. One betrays oneself by insisting upon making the wrong to appear "right," or at least not "wrong." This self-justifying lie takes the form of accusation in order to shift responsibility for the wrong away from oneself. From this warped perception, others' blameworthiness somehow excuses one's own less than exemplary acts. A self-betrayer enters a "virtual reality" comprised of self-justifying images that effectively objectifies others and accuses them as a defense against one's own transgressions (1997: 8).

Warner (1997) contends that the chief feature of self-deception is the willful adopting of offense-taking emotions and attitudes for the purpose of self-presentation, covering up one's wrongdoings by insisting one was the passive and therefore non-responsible victim, while simultaneously presenting the other as the active, responsible perpetrator and therefore blameworthy. Such a presentation is necessarily false precisely because it denies that it is an active presentation of "passivity." Even though the judgments inherent in an offense-taking attitude are false, it is impossible to adopt that attitude without *believing* that the judgments are true. One comes to believe the judgments are true because of the paradoxical fact that cognition is filtered by judgments, evoking emotions which *seem* to confirm the judgments: I have just been angered *by* another because I indisputably *feel* anger. This external focus obscures the true source of one's anger: one's own offense-taking attitude and judgments.

Offense-taking attitudes of righteous outrage abound as the financial crisis continues to unfold on the national arena. *Time Magazine* reported that "the mob has been chanting for months" since Treasury Secretary Henry Paulson warned of impending disaster in September of 2008. Because the financial instruments at the focus of the ongoing investigations represent a new frontier with no maps and few rules or laws governing them, people don't know whom precisely to scorn, "especially since many of us in the mob now wish to punish those who gave us exactly what we asked for" (Gibbs, 2009). Offense-taking can be clearly seen for what it is: a manipulative attempt to shift blame and responsibility away from ourselves by claiming to be "innocent victims".

### The Psychological View

Reality Negotiation. People do exhibit individuality, consciousness and will; however, we self-deceptively ascribe much greater powers and levels of development to ourselves than is borne out by research. Sigmon and Snyder (1993) propose from their review of the research on the self-concept that people hold two primary beliefs in their theories of self: "I am a good person" and "I am in control most of the time". Rather than reconstruct our theories of self in the face of disconcerting or contradictory information, they suggest that we engage in what they call a "reality negotiation process" by providing excuses or justifications for the behavior (1993: 150). By clinging to our theories of self, we inevitably develop blind spots about ourselves and our true capabilities, as well as the activities and capabilities of others.

In July 2008 President George W. Bush continually minimized the financial crisis, characterizing it as "Wall Street's intoxication with fancy financial instruments." By making the emerging problems appear as though they were merely a temporary phenomenon akin to a "hangover", he justified his administration's laxness in monitoring and regulating the industry. Admission of the vastness of the economic downturn may

have been far too disconcerting and dissonant with his self-concepts of being a “good person” and “in control” (Lantier, 2008). Only in hindsight was it recognized that the longer the problems went unaddressed, the more serious were the consequences.

**Naïve Realism.** Emily Pronin’s (2006) research into “naïve realism” showed that when people perceive their opponent in a negotiation as biased, they take a more competitive stance towards that opponent – even when that stance backfires. Disagreement and conflict induce people to perceive their adversaries as biased, which, in turn, induce them to take actions that escalate conflict as the spiral continues. This is due to people’s *unwarranted reliance* on their own introspections for assessing personal bias, and because of their *unwarranted assumption* that their own perceptions directly reflect “objective reality”. The consequences of this state of affairs are clearly serious. On Wall Street and Main Street we see blame, accusations and offense-taking heating up, provoking evermore defensiveness in response. There is little opportunity or incentive for contemplative reflection and intelligent assessment of the complex causes and conditions that brought about the financial crisis.

**Confirmation Bias.** Roy Baumeister of Case Western Reserve University concluded from his research that the self-deceiver’s goal is to *protect his or her favorable view of self at all costs*, and that people employ a number of strategies to accomplish this (Baumeister, 1993: 168) (emphasis added). One well-researched strategy is the confirmation bias, which states that people testing a hypothesis tend to search in memory and in the world more often for confirming than for disconfirming evidence. Confirmation bias has been observed even in relatively neutral situations, not just emotionally charged as one might expect. The implications of the confirmation bias for the retention and formation of beliefs are obvious (Mele, 2001: 29). So powerful is the need for consonance that when people are forced to look at disconfirming evidence, they will find a way to criticize, distort, or dismiss it *in order to maintain or even to strengthen their existing beliefs* (Tavris & Aronson, 2007: 19) (emphasis added).

Felix Salmon (2009), a popular financial blogger, connected the overconfidence of bankers and financial managers in the marketplace with overconfidence in David X. Li’s (2000) formula known as a Gaussian copula function, an economic formula used to calculate risk based upon correlates rather than history. The inherent weakness of the formula, of which Li himself and others warned about as early as 2006, is that this approach made no allowance for unpredictability. It assumes that correlation is a constant rather than something volatile. In hindsight, bankers who ignored the warnings look at best foolhardy; at worst, criminal. Bankers dismissed the warnings, Salmon believes, partly because neither they nor their managers understood the formula. At the time, though, this was all too easy to ignore while they were making so much money. After all, it made no sense to seek out disconfirming evidence when things were “obviously” going so well.

### Cognitive Dissonance Theory

Leon Festinger’s (1957) cognitive dissonance theory shows how people strive to make sense out of contradictory ideas in order to lead lives that are, *at least in their own minds*, consistent and meaningful. The theory inspired more than 3,000 experiments that, taken together, have transformed psychologists’ understanding of how the human mind

works (as cited in Tavris & Aronson, 2007). Although the term has escaped academia and moved into mainstream, *few people fully understand its meaning or appreciate its enormous motivational power*. Cognitive dissonance is the engine that drives self-justification, the energy that produces the need to justify our actions and decisions – especially the wrong ones. Cognitive dissonance is an unpleasant feeling ranging from minor pangs to deep anguish, a state of tension that occurs whenever a person holds two cognitions (ideas, attitudes, beliefs, or opinions) that are psychologically inconsistent. *People do not rest easy until they find a way to reduce dissonance*. If it does not seem possible to reduce dissonance directly, then one is forced instead to manipulate the way one perceives the situation through ingenious, self-deluding justifications (2007: 13).

Experiments in cognitive dissonance theory successfully challenged many notions about human nature that were gospel in psychology yet persist today in the public domain. Notions relevant to the topic of the financial crisis include:

- The economists' view that human beings generally make rational decisions based on the facts. Consider the testimony of former Federal Reserve Chairman Alan Greenspan, who reluctantly acknowledged under questioning that he had made a mistake in believing that banks, operating in their own self-interest in lieu of regulation, would do what was necessary to protect their shareholders and institutions. Only in retrospect Greenspan called that a flaw in the model he used to define how the world works (Associated Press, 2008).
- The self-flattering idea that we humans process information logically. On the contrary: if the new information is consonant with our beliefs, we think it is well founded and useful; but if the new information is dissonant, then we consider it biased or foolish (Tavris & Aronson, 2007: 18). Consider Blodget's experience when the bull (inflationary) market was raging. Intense pressures were exerted upon the brokers who, sensing that the bubble was due to burst, were recommending bearish (cautious or conservative) actions. Pressures included being regarded as "wrong" rather than "prudent" all the way to being fired for "losing business". No one wanted to hear the bear message, *and it was perceived as a threat to be extinguished* (Blodget, 2009: 58) (emphasis added).
- The assumption that "a con man will experience discomfort when he cheats an old man out of his life's savings". This assumption, painfully relevant to the fraud exposed in the financial crisis, does not hold up in research. For people who have a (sometimes well-hidden) low self-image, *such behaviors are consonant with that image*, deepening their convictions and actually serving to *reduce* their experience of dissonance and discomfort (Tavris & Aronson, 2007: 31). Consider the practical implications for the justice system and society, as well as the ethical implications, of reinforcing the negative self-image of perpetrators by morally judging their behavior as "criminal", "blameworthy" and deserving of "punishment", thereby potentially *encouraging* recidivism through reinforcing their negative self-image.

**Self-Justification.** Justifications are the chief mechanism for relieving cognitive dissonance. Once we begin down the road of self-justification, a process begins, gathers momentum, and takes on a life of its own that becomes *increasingly difficult to intercept*. The further we go down that road, the harder we cling to our beliefs and justify our



opinions, *often ending up by justifying a polar-opposite position from where we began* (Tavris & Aronson, 2007: 33) (emphasis added). Consider the case of Bernard Madoff, whose illegal Ponzi scheme deprived many people of their life's savings. From Sigmon and Snyder's (1993) research, we can see that Madoff, like most people, likely regarded himself as being a "good person". Quite likely he found himself on the road to becoming a swindler one justification at a time, inch by inch. He may never have intended to break the law. In his prepared statement to the courtroom, he explained that his behavior was driven by a desire to meet clients' expectations of above-market returns "at any cost". Madoff told his clients he was using a "split-strike conversion strategy" that other financial institutions privately admitted made no sense; but as long as the returns seemed to keep coming *they suspended disbelief*, thereby unwittingly colluding with the scheme. Madoff told the court: "When I began the Ponzi scheme, *I believed it would end shortly* and I would be able to extricate myself and my clients from the scheme. However, this proved difficult, and ultimately impossible, and as the years went by I realized that my arrest and this day would inevitably come" (Richburg & Tse, 2009: A12) (emphasis added).

One can rightfully argue that persons such as Madoff who are relied upon as experts in their fields should be held to a greater level of accountability for their actions. Madoff understood that what he was doing with clients' funds would fall under the definition of an illegal Ponzi scheme. As we have seen, though, such behavior is consonant with a low self-image. If Madoff suffered from a low self-image, and if at the time he rationalized that "it would end shortly," then this could be another case of self-deception at work – though undoubtedly with grave consequences – rather than premeditated malicious behavior. The point is not to prove or disprove motivation and intent in Madoff's case, but instead to explore cases like his through another lens.

### The Neuropsychological View

Immersed in our daily lives, we seldom reflect on the nature and quality of our worldview. The value of neuropsychology research is to support at the physiological level what psychologists discover at the behavioral level. There is growing evidence in brain research using MRI imaging that supports the hypothesis that biases and blind spots are built into the way the brain processes information (Westen, Blagov, Harenski, Kilts & Hamann, 2006). One of the brain's most ingenious tricks is to produce the comforting delusion that we, personally, do not have any biases or blind spots (Tavris & Aronson, 2007). We are predisposed to unquestioningly believe that we perceive reality (as opposed to fantasy), that we perceive without bias, and that we make our decisions rationally.

The Ramachandran (1998) study showed that the left and right hemispheres contain what appear to be counterbalancing tendencies. The left tends to forge a synthesis of new information with current mental models, while the right serves as a "devil's advocate," looking for anomalous sensory information. Self-deception may arise from a deficit in the brain's ability to adjust prevailing schemata in the face of anomalous information.

Our relatively recent understanding of how impressions are processed at the pre-conscious level provides a significant piece of the self-deception puzzle by demonstrating

how behavior can be unconscious, yet *appear* to others as if willful and motivated. Freud and other early researchers conceived of the brain's sensory processing as linear: from stimulus, to sensory store and filter, to consciousness and simultaneously to storage in long-term memory, and finally response. Experiments by Donald Norman (1968) contradicted this linear model, showing that some form of intelligent scanning takes place *before impressions reach the filter*, which both take place in a *pre-conscious phase*. Since meanings are stored in long-term memory, Norman concluded that in addition to the more obvious loop between consciousness and long-term memory there must be an interactive loop between long-term memory and the earlier stages of information processing.

The implications of these findings are enormous. They explain how people come to deceive themselves through an iterative process of rationalization and selective attention. Each iteration builds up biased meanings or mental models, which in turn serve to pre-screen incoming impressions *before they reach consciousness*, which seem to “prove” the existing mental models, thereby reinforcing the underlying beliefs (Goleman, 1985: 65). Once beliefs become unquestioned assumptions in long term memory, they disappear into the “forest” of the subconscious mind.

#### Systems Theory View

General Systems Theory. Systems theory, based on physical and biological science, puts human behavior into a much larger context, showing us how forces much greater and more fundamental than those operating in any one individual drive a great deal of human behavior. The significance of the contributions of systems theory to understanding ourselves and the world are considerable (Senge, 1990). The complexity and interactivity of systems shows us there is no one “cause” of current events upon which to pinpoint the “blame”. In order to master systems thinking we must give up the assumption that there is an individual agent responsible; everyone shares responsibility for problems generated by a human system. This implies that the search for scapegoats is a blind alley, a pastime which Senge characterizes as particularly alluring in our culture. Most important, pinpointing the blame on individuals distracts from a deeper inquiry into the systemic problem which can only be corrected at that level (1990: 78).

Family Systems Theory. There are two basic counterbalancing “life forces”, which are more basic or fundamental than genetic determinants, called the “togetherness” (or attachment, connectedness) force and the “individuality” (or self-defining, autonomous) force. Together they define a continuum or scale ranging from emotional symbiotic fusion with the family of origin on the “togetherness” end, to total emotional autonomy on the “individuality” end. Our lifetime human developmental task is to differentiate from symbiotic fusion into authentic selfhood (Kerr & Bowen, 1988: 103).

The togetherness force exerts a pressure to behave, feel, and think like others as well as the striving to influence others to behave, feel, and think like oneself. The intensity of the togetherness force increases when values and beliefs are polarized into rigid mental models of right and wrong, good and bad, making it vastly more difficult for children to progress along the developmental task of individuation. The behaviors that would lead a child toward individuation become conditioned by parents' reactions to

arouse anxiety. The pseudo-self and its self-deceptive mechanisms gradually form in order to manage this anxiety.

The pseudo-self is a false self-image, similar to what Warner (1997) described as a “virtual reality”, that over time one self-deceptively believes is one’s *identity*. The result is that most people cannot distinguish between their pseudo-self (false self-image), to which they are *emotionally fused*, and their solid self (authentic, developed self). The chief characteristic of such identification is the polarized, all-or-nothing, judgmental nature of the thinking and emotional processes marked by increased emotional intensity, reactivity and accusing/blaming.

In the aftermath of the stock market crash, journalists reported the polarization of people into vigilante-like groups spouting blaming rage. No doubt this was in direct proportion to their own involvement and personal responsibility in bringing about their losses. Blaming and judging others are predictable, inherent characteristics of human systems as anxiety is shifted along the path of least resistance within the system.

#### THE PARADOX OF MAKING MORAL JUDGMENTS OF HUMAN BEHAVIOR

Deception in general is considered a vice by many; yet deception in daily social interactions is invisibly held in place through tacit collusion with others, and serves the function of producing smooth, predictable social relations. Contrary to conventional thought, Robert Solomon (1993) of the University of Texas’s Philosophy Department considers deception to be a social *virtue* when used in the adaptive sense. Truth-telling can actually be a *vice* when used to hurt and the harm is not easily redeemed; when telling the truth unnecessarily complicates social arrangements, undermines our collective myths, destroys relationships, or incites violence and vengeance. Systematic deception is an essential, adaptive part of the order of the social world (Solomon, 1993: 34).

Making a moral judgment of self-deception is also not as simple as it may at first appear. To judge its psychological consequences one must examine both costs and benefits, because research shows evidence for both. Conventional thought condemned self-deception as an unhealthy lack of contact with reality. The view that depression was caused by a distorted view of reality was challenged by research on depression which showed that depressed people see reality *more accurately* than non-depressed people. Depressed participants judged other people’s attitudes toward them far more accurately than non-depressed participants; and this ability lessened as the symptoms of depression lifted in response to treatment (Lewinsohn, 1982). On the other hand, as noted earlier, self-deception is also positively correlated with all forms of psychopathology (Shapiro, 1996). Because self-deception is adaptive, seeing the world in a favorably distorted fashion is an integral part of healthy adjustment (Baumeister, 1993: 176). The trick appears to be maintaining a healthy resilience while managing the tension between the two poles. Once again, assigning blame and guilt to an unconscious, biologically-rooted process that is essential for maintaining mental health places people in an untenable moral “squeeze”.

Shane and Peterson (2004) propose that so-called antisocial behavior, where individuals seem to be “unrepentant” and unable to learn from punishment, may not be motivated by maliciousness at all, as assumed. Instead, their research with individuals labeled “antisocial” in an intentionally rigged, computer-based learning environment

showed that such behavior is a learned, thoroughly ingrained attention style defensively aimed to reduce their experience of negative emotions. The *unintended consequence* is an *inability* to reflect upon their experiences, learn from them, and adapt their behavior (Shane & Peterson, 2004: 959) (emphasis added). Their research highlights the problems when attempting to justify the assignment of moral culpability: these people have been rendered unable to learn from experience *due to conditions which are beyond their present ability to control*.

### The Paradox of Assigning Blame in the 2008 Financial Crisis

Observations in clinical and experimental settings reveal that human behavior is largely driven by basic life forces interacting with genetic determinants, the environment, and social influences. However, from one's subjective experience of oneself, one ascribes various "reasons" and "motives" to behavior. Under certain conditions, the human mind will even make up explanations with which we *unquestioningly agree* (Patten, 2003: 231) (emphasis added).

Attribution Theory. Social psychology itself was blind to the tendency of the mind to attribute causes of behavior to individual character rather than social situations, even when the social situation is more than sufficient to explain the behavior, until a series of experiments produced unexpected results (Jones & Davis, 1965). Luckily the researchers were curious enough to keep investigating, and others slowly became interested as well over the course of two decades (as cited in Gilbert & Malone, 1995). The intellectual roots of this tendency are so deep in Western thought that, like scientists between the ages of Aristotle and Galileo, "common knowledge" was preferred even in the face of strong, contradictory evidence. It wasn't until social psychology had itself recognized the significance of situational forces that it would investigate and develop what is now known variously as correspondence bias or attribution theory.

Turning again to the financial crisis, Blodget's (2008) thoughtful reflections on his experience of its causes identified human psychology as a primary factor. Aside from outright law-breakers, he argued that *everyone* from the presidents, to Greenspan, to brokers, bankers and realtors, and on down to "You and Me" contributed to the financial crisis, yet we each acted just the way one would expect us to act under the circumstances that existed *at the time the decisions were made*. Blodget traced a hypothetical chain of transactions through people on the "blame" list with the character judgments attributed to them:

- The "predatory" mortgage broker who sold loans that are now "a ticking time bomb": the broker didn't make people choose that loan; people selected it because it offered the lowest payment.
- The "sleazy" real estate agent who kept saying that houses are usually a good investment: Often they are good investments, and people knew in advance that realtors are salespeople with an obvious bias.
- The Wall Street "fat cats" whom our tax dollars are now bailing out: People didn't complain when their lenders asked for such a small down payment without bothering to validate income; in fact, many experienced it as downright flattering.

- If Alan “The Maestro” Greenspan hadn’t assured us that everything was fine, people might have been more inclined to believe the economists who said otherwise: No one *knew absolutely* that the market would crash, not even the analysts who predicted that it would.

The fact is, the buck stops with each one of us. While we must therefore all bear some responsibility and accountability for the consequences, it would be difficult to prove that most of the people on the blame list acted criminally, irrationally, or even irresponsibly given the climate of intense pressure to believe that “it’s different this time” (Blodget, 2008: 55).

Experimental Economics. The fascinating discoveries of experimental economists support Blodget’s view. Over a span of 20 years, laboratory-controlled experiments were conducted to study how different groups of people behave under varying investment scenarios. Economists at first thought that given a predictable and secure value of future dividends, displayed prominently on the computer screens of the participants, that there would be no crazy ups and downs, no bubbles and panics. The trading price should stick close to the expected value. But that’s not what happened in the experience of Vernon Smith, who won the 2002 Nobel Prize for developing experimental economics in the mid 1980s. Again and again, with varying populations and conditions, the trading price ran up above the fundamental value (Postrel, 2008: 42).

Charles Noussair (2007), who published the results of similar studies in the *American Economic Review*, suggested that traders don’t reason the way one logically expects. Traders base their expectations and behavior on their historical experience, not on the logical inferences that could be drawn after several rounds of trading (Postrel, 2008: 43). Vernon Smith and his collaborators ran similar experiments, but this time changing the conditions after traders had learned from experience to avoid getting caught in a bubble. Under the changed conditions, the experienced traders once again generated a bubble just as big as if they had never been in the lab. Smith concluded that “bubbles are the funny and unpredictable phenomena that happen on the way to the ‘rational’ predicted equilibrium *if the environment is held constant long enough*” (2007: 43). Virginia Postrel concluded from her interviews with the experimental economists that their findings should give pause not only to people who believe in efficient markets, but also to those who believe we can eradicate bubbles simply by curbing corruption and imposing more regulation. It becomes increasingly difficult to justify the assignment of blame or to adopt a stance of moral outrage for behavior which appears to be inherent in the human condition.

#### The Impact of the Judgmental Polarized Worldview

Leaps of Abstraction. Peter Senge (1990) along with other researchers at MIT mapped a key cognitive habit that significantly contributes to shaping the judgmental polarized worldview which they term making “leaps of abstraction”. A leap of abstraction is the movement from direct observation to generalization (Senge, 1990: 178). This habit has its roots in the nature of the conscious mind, which is ill-equipped to deal with large numbers of concrete details. The rational mind is extraordinarily facile at abstracting from concrete particulars, substituting simple concepts for many details and then reasoning in terms of these concepts. This capacity is extremely useful for making

sense out of the vast number of impressions with which we are continuously inundated. However, because of our learned tendency to judge and evaluate everything in terms of polar-opposites, our minds make “leaps” of abstraction. We select out one or two observations while ignoring others, interpret them through a judgmental, polarized lens, and then make a generalization which we subsequently take as “fact”.

The second characteristic of a leap of abstraction is that the movement from direct observation to generalization occurs without testing for validity. Most of us are not skilled at discerning the difference between concrete fact and generalizations; therefore over time nearly all generalizations seem “plausible” to us. We are satisfied by “plausibility” and do not notice, much less question or seek to verify, the underlying assumptions. The sobering fact is that once our mental models are formed based on these untested “facts”, they serve as filters for all other incoming information, selecting out evidence that does not fit the model, which has the insidious effect of appearing to “prove” the biases. In short, they become self-fulfilling prophecies of sorts (Senge, 1990: 179).

I suggest that the glue which holds the self-deception process in place is our shared, largely unquestioned and mistaken belief that the interpretations we make under the influence of the judgmental polarized worldview are “factual”. Concepts such as “good” and “evil” are applied to people and behavior and are perceived by us as concrete, absolute facts, rather than as relative *leaps of abstraction*. This layer of judgments basically states that people “should” or “ought” to behave in one way and not in another way, despite the mounting evidence that many problematic behaviors are unconscious or outside the scope of an individual’s present ability to control, or driven by systems rather than individual will.

Polarity is a laws-based phenomenon present in all aspects of the natural world. Murray Bowen based his life’s research on the commonsense (but unflattering) idea that humans have more in common with the natural and animal world than differences (Kerr & Bowen, 1988). Family Systems Theory begins with the observation that nature and systems are neutral; there is no right and wrong, good and bad. Human subjectivity “takes sides” in nature and attempts to impose upon it what “should” be, essentially arguing with reality. The judgmental nature of our human worldview distorts our perceptions causing acute stress and anxiety, leading to the use of self-deception to manage the anxiety. Once recognized, however, it is possible to “de-polarize” our thinking, thereby reducing anxiety and reducing distortions to our perceptions. At first the difficulty is simply imagining how such a worldview would look.

The Judgmental Polarized Worldview in Society. Disputes about the important human values have a long and varied history, yet two values are always represented: agency, defined as the positive value placed on individuality, personal striving, growth and achievement; and communion, the positive value placed on relationships, intimacy, and benefiting others or society as a whole (as cited in Paulhus & John, 1998: 1039). This has obvious similarities to the family systems theory terms of “individuation force” and the “togetherness force”. These two fundamental values, agency and communion, give rise to two motives: the need for power and the need for approval. These pairs of dimensions are implicated whether we look at response styles, personality, motives or self-evaluation (1998: 1041).

In examining the implications, Paulhus and John (1998) found that while proponents of one polarity tend to view the proponents of the other polarity as the *opposition* implying that one polarity is “superior” to the other, both forces are now known to be *necessary and adaptive*. The tension between the two forces allows for an optimal balance of an individual’s versus society’s goal-oriented activities (Paulhus & John, 1998: 1047). This research also suggests that polarization in human relationships is natural; what goes beyond nature is to judge one polarity as somehow superior or preferred *over* the other rather than seeking to find that *optimum tension* between the poles.

**The Judgmental Polarized Worldview in Religion.** Strong religious beliefs have been positively correlated with self-deception (Burris & Jackson, 2000; Burris & Navara, 2002; Leak & Fish, 1989). The paradox has not gone unnoticed, fueling debate among academic psychology as well as popular culture. The 2000 study by Burris and Jackson demonstrated that implicit religious group membership is a core component of the social identity of those individuals, such that not measuring up to the religious group’s standards may be experienced as particularly personally threatening. The 2002 Burris and Navara study built on that foundation to show that religiosity is positively correlated with self-deception and impression management (other-deception) (Burris & Navara, 2002: 69). The highly judgmental and polarized worldview of certain religious groups apparently arouses deep anxiety due to the threat of being “measured” and judged by the religious group’s standards, triggering self-deception and impression management (other-deception) as defenses.

Psychotherapists Johnson and Burroughs (2000) explored from a Christian viewpoint how to take such research findings into account in order to resolve the moral dilemma of self-deception. Their insight into how religion can paradoxically become a troublesome defense mechanism is especially valuable, in light of the Christian underpinnings of modern American culture: “It is sadly true that many unbelievers are more honest about their irreligious motives and sin than many Christians. Perhaps one of our greatest needs as believers is to become increasingly aware of the tendency to turn Christianity and our relation with God into a massive defense system paradoxically keeping us from going deeper with God by protecting us from stress through ordering life superficially... and by making us feel superior to others” (Johnson and Burroughs, 2000: 187).

#### A Restorative Justice View

Some people may protest: does pursuing a depolarized worldview mean there is no right and wrong behavior? Does it mean that people can do anything they please and bring all of society down into the chaos of greed and colliding self-interests? Does this mean people won’t be held accountable for such behavior? The short answer is: No. Striving to depolarize one’s worldview entails a shift of perception from automatic assigning of blame, to careful consideration of the dynamics of the situation from a much broader context; a shift away from judging according to rigid, unrealistic standards toward compassionate inquiry into human psychology.

As increasing numbers of professionals across disciplines realize the need for a compassionate – or at least a neutral rather than judgmental – approach to human

dysfunction, attempts to mitigate the effects of the judgmental polarized worldview are becoming more common. Some well-known examples include: “no-fault” divorce and auto insurance to reduce the animosity generated and excess dollars spent through having to prove “cause”; legalizing abortion to reduce the injury and deaths to women; reclassifying alcoholism and drug addiction as disease processes rather than as vices to reduce the stigma and assist in recovery; and recent renewed dialog about legalizing, taxing and regulating recreational use of marijuana rather than imprisoning ordinary, nonviolent people.

With greater awareness and acceptance of the dynamics of self-deception, perhaps in time our society can move from a retributive to a restorative justice system. Accountability for the consequences of one’s behavior must, of course, be addressed. Among other measures, this can be done through restitution, which attempts to restore those harmed as much as possible to their previous condition, but without attaching the stigma of blame and without the harsh punishments of our retributive judicial system, all of which inadvertently encourage recidivism through reducing dissonance for individuals with a low self-image. There is still a need for ongoing ethical inquiry: to try to ascertain the relative benefit (rightness) or harm (wrongness) likely to flow from our decisions to all stakeholders. We will always need ethical guidelines to inform our personal reflections and public regulations to protect us from unconscious human behavior when self-deception would otherwise prevail and lead to negative consequences. To depolarize one’s worldview simply means to learn to cease objectifying and demonizing others and to cease taking offense over adaptive, biologically-rooted human behavior, because the underlying motive of such strategies is to *covertly shift the blame away from oneself*.

#### IMPLICATIONS FOR BUSINESS ETHICS

The phenomenon of self-deception has several ethical implications for behavior. To the degree that ethical theories rely upon the assumption that behavior is willful and conscious, we must rethink the assignment of responsibility and blame in light of unconscious and systems-driven behavior. To make moral judgments of behavior that flows from self-deceptive processes can be seen as a disservice at best and potentially unethical when considering the research showing how moral judgments tend to provoke the *opposite* of the expected behavior (Burriss & Jackson, 2000; Burriss & Navara, 2002; Leak & Fish, 1989).

Barry Castro (1994), a business ethics professor, argued in the *Business Ethics Quarterly* that a continuing effort to avoid self-deception is the prerequisite to any ethical analysis. However, this effort cannot be altogether successful due to the “messiness” of the human condition. Castro acknowledged, like Plato, that human affairs are “messy” in the sense that we embrace diametrically contradictory goals or needs: the need to delude ourselves and also to purge ourselves of delusion; and the need to live the examined life while permitting ourselves to live by not examining life. Together these can be seen as central to the human condition, co-existing in uneasy tension. Castro viewed the study of business ethics as the study of that tension. Such contradictions lie at the heart of the ethicist’s work and suggest that business ethics, like any other branch of ethics, “must enjoin us to go on trying to know ourselves, in the face of the certain knowledge that, in so doing, *we must also be deceiving ourselves*—to affirm that we cannot, at least for



more than a passing moment, see truth directly, but that we have to go on trying anyway” (1994: 188) (emphasis added).

Family systems theory shows us how our society’s ongoing argument with reality results in intense stress and anxiety, overwhelming our thinking and reasoning processes. Our harsh judgments of one another provoke the need for developing the self-protective defense of the pseudo-self, which has the unfortunate effect of stalling our growth and individuation, and relevant to the topic at hand, renders us *less capable* of acting reasonably and ethically in the face of pressures from our fellow humans. Declaring certain behaviors as “morally offensive” is not only insufficient to stop the behaviors and their unfortunate consequences, but as discussed, actually backfires and *exacerbates the problems*.

#### CULTIVATING CONDITIONS CONDUCTIVE TO ETHICAL DECISION-MAKING

What is needed in our workplaces is a practical, informed strategy for reducing the need for self-deception defenses, thereby reducing the chances for unethical behavior. Following is a discussion of how to move from a judgmental, polarized attitude that backfires to a compassionate, restorative attitude that reduces the need for self-deception defenses.

#### Suggestions from the Psychosocial Disciplines

**Psychotherapy View.** Christian psychotherapists Johnson and Burroughs (2000), take a more compassionate view of defensive activity than many theologically-based people. Since they have thoroughly researched and confirmed that defensive activity begins in childhood as a reflexive protective response, they concluded that young adults cannot be expected – by God or any human – to suddenly drop this biologically-rooted behavior, which at times is essential to manage excess guilt and anxiety. Instead, adults must be encouraged to seek self-awareness and learn how defensive activity operates in order to become *more able* to be responsible and morally accountable for their behavior. Defensive activity can only be approached indirectly when a person has become open to self-examination and questioning (2000: 187). In other words, people will look within to make visible what is hidden only when it *feels safe to do so*.

**Arbinger Institute.** Warner (1997) proposed that the way to end self-deception is to learn to *cease taking offense*. Understanding deeply how the self-betrayal mechanism works shows the way to cease taking offense: one realizes that the social world colludes to preserve one another’s lies and justifications as we each seek to hide from our own self-betrayal and shift the blame to others. It becomes clear that another’s accusations have nothing to do with me, and everything to do with the other’s own inner struggle. To stop betraying oneself, to stop deceiving oneself, and to drop the habitual offense-taking attitude towards others is to enter an entirely new way of being. This is a moment-to-moment growth endeavor, not accomplished “once and for all” (1997: 8).

**Family Systems Theory.** The pseudo-self serves as an automatic frame of reference and a guide to behavior in lieu of thoughtful, self-directed choices. Kerr and Bowen (1988) found that a person fused with a pseudo-self is immersed in the world of self-deception and cannot be judged culpable for “decisions” which flow from that process. On the other hand, a person who has accomplished greater emotional

differentiation derives their identity and self-worth from their own values-based principles cultivated and tested over time. Since they do not depend upon the approval and agreement of others to sustain their sense of self, they can drop any belief found to be false in the face of new evidence. They can be held to higher standards of responsibility and culpability. However, given that differentiated individuals are currently by far the *exception* rather than the rule, we must adjust our expectations for ourselves and our fellow humans accordingly.

As we develop a solid-self, the need for protection through self-deception diminishes and we begin to admit into consciousness knowledge of our weaknesses in order to develop them. We begin to cultivate what might also be called “moral courage”: the ability to hold one’s own opinions and values in the face of strong togetherness pressures. We learn how to be non-reactive to the emotionality that accompanies attempts at coercion. Being non-reactive does not mean being unfeeling, uncaring or withdrawn; on the contrary, one remains actively engaged with people, yet inwardly detached. This non-reactivity must be directed both outward toward the emotionality of other people and inward towards the automatic thoughts and emotions continuously and automatically triggered inside oneself. However, they concede that this skill is difficult for many people to learn, especially without assistance from a trained therapist (Kerr & Bowen, 1988: 127).

Even the average human intellect is capable of observing events with relative objectivity, but the intellect is vulnerable to being acutely and chronically overwhelmed by emotional intensity. Emotional intensity present within family and workplace systems drives us to justify our opinions and actions. In low intensity situations, on the other hand, the intellect can better perceive objective facts, assisting us to make ethical decisions based on principles and one’s higher-level feelings and values (Kerr & Bowen, 1988: 32). Therefore it behooves us to learn how to manage anxiety and emotional intensity in the workplace.

Cognitive Dissonance Theory. Carol Tavris and Elliot Aronson, social psychologists and authors of the best-selling book *Mistakes Were Made (But Not by Me)*, declare that although most Americans know they are supposed to say “we learn from our mistakes”, deep down they don’t believe it for a minute; they think that mistakes mean you are stupid. Translated into behavior, mistakes are treated like “hot potatoes” to be gotten rid of as quickly as possible, even if it means tossing them into someone else’s lap (Tavris & Aronson, 2007: 230). In order to inch back from the precipice of self-deceptive justifications driven by cognitive dissonance, people need to feel respected and supported. Persons concerned about the behavior of another can therefore inquire into the *values* that led up to the decision and listen *without judgment*. Acknowledging the positive values behind the “miss-take” offsets feelings of insecurity and incompetence by in effect saying that when a decent, smart person makes a mistake, he or she *remains* a decent smart person and the mistake remains a mistake; the focus becomes how to remedy the situation.

Unfortunately, our typical reactions to people whom we see as victims of self-deception backfire and make matters worse: we heckle, lecture, bully, plead or threaten. These reactions invariably trigger a person into being even more defensive. When lectured by a family member, a victim of fraud unfortunately reduces dissonance by

playing right into the hands of con artists. “That nice, thoughtful person who made me the investment offer would never cheat me, and besides, they advertise on Christian radio” (Tavris & Aronson, 2007: 232).

### The Key Role of Business Leaders

While mainstream culture will be slow to change, more enlightened business leaders can play a critical role in creating a non-blaming, supportive climate in the organizations in which they work. Faced with being ridiculed and with the threat of being fired, it was only human that Blodget and other brokers with a bear (conservative) message eventually talked themselves into believing that it *was* different this time, losing hundreds of thousands of dollars *of their own* and their clients’ money in risky investments. We are left wondering: had the leaders of those brokerages instead cultivated an atmosphere of support and respect for the brokers working under them, could disaster have been averted by heeding their warnings?

Because Family Systems Theory concepts are based on general systems theory and biological science, they also apply to organizations and to society as a whole. An important correlation between family systems and workplace systems is the tendency of leaders to blame subordinates for systemic problems (and vice versa). Blame is prevalent in the dynamics between poorly differentiated people because it effectively alleviates anxieties by shifting them to someone else. Blaming and searching for scapegoats were the chief reactions in the public arena following the downward spiral of the investment and housing markets, reflecting the lack of understanding of systems in mainstream America. Leaders need to understand how behavior is triggered by the system itself, invalidating the idea of blameworthiness. Instead of focusing on individual character, leaders need to learn how to focus on behavior. More enlightened leaders learn to search within their own relationships for a potential source of problems they see reflected in subordinates (Bowen, 1992: 504).

Creating a Supportive Climate. By reducing the human need to defend one’s self-esteem from perceived attack, it becomes more possible to acknowledge disconfirming evidence, question long-held assumptions, and consider diverse opinions. In their book, Tavris and Aronson ask you to imagine an employer who started a meeting by saying: “I want to hear every possible objection to this proposal before we go ahead with it – every mistake we might be making” (Tavris & Aronson, 2007: 217). Ultimately these behaviors become not just tolerated or accepted, but respected and encouraged; because research has established that this same climate also increases the creativity and innovation needed to compete in today’s volatile marketplace (Senge, 1990; Yukl, 2006). Besides making good business sense, reducing the need for self-deception and group collusion obviously reduces the chances of making unethical decisions.

Most important, when mistakes are made in a supportive climate, we are more willing to acknowledge them and correct them or restore the injured party to wholeness. Tavris and Aronson believe that the courageous individuals who admit to their mistakes take us straight into the heart of dissonance and its innermost irony: The mind wants to protect itself from the pain through self-justification; but the soul wants to confess (Tavris & Aronson, 2007: 217). It requires an enormous amount of mental and physical energy to maintain our system of defenses; yet this energy could be much better spent.

For example, those who are able to remain non-defensive and learn from their mistakes make the best leaders. The book, *Leadership Passages*, takes this paradox as its core idea: *If you've never failed as a leader, you'll never be very successful*. The CEOs who fail spectacularly are often leaders who have never failed before (Dotlich, Noel & Walker, 2004: 81). They successfully protected themselves from the anticipated psychological pain of being judged by others or by themselves for their mistakes when the failures were smaller and more easily contained, thereby missing out on the invaluable feedback and learning. The irony is that in their attempts to protect themselves from psychological pain, they unwittingly set themselves up for far greater, more public failure – and ultimately far more painful for all concerned.

Research shows that “honest” and “ethical” are the two paired characteristics most sought for in leaders (Kouzes & Posner, 2003). Summarized, the attitude of top executives in 20 countries revealed that they “expected their chief executive to be *above reproach*” (2003: 86) (emphasis added). Kouzes and Posner used this finding to make a case for the need for leaders to be credible. While credibility is undoubtedly essential, I believe that the expectation that leaders should be *above reproach* is an unrealistic cultural myth that actually *backfires* by driving leaders to use an upbeat, overly positive persona as a shield against the dissonant reality. When leaders invest in an overly positive self-image, they develop a false sense of self-confidence which they vigorously defend through self-justification. Self-justification, the chief mechanism whereby we engage in self-deception, is unconsciously used to create the *appearance* of being beyond reproach rather than investing the same amount of effort into engaging in an ethical decision-making process.

When a leader is surrounded by followers bound to the togetherness force, they may have insufficient moral courage to question a well-defended, self-deceived leader’s potentially unethical actions. The followers’ cognitive dissonance may trigger their own self-deception processes, and together they collude to reinforce one another’s selective perception. Research supports collusion between leaders who perceive themselves with an exaggerated positive self-identity and their suggestible followers. Leaders provide rewards and recognition in an attempt to “woo” their followers in a delicate interplay between self-deception and impression management (other-deception), all with calculated ends in view as leaders attempt to *convince themselves and others* of their abilities to lead (Gray & Dentsen, 2007) (emphasis added). The need for pretense of technical expertise and the affect of superficial optimism required to play the managerial game are also substantial barriers to the contemplative life; yet openness to the contemplative life is essential in order to uncover the self-deception that would hide unethical behaviors (Castro, 1994).

Foundations for Corrective Action. Specialists in the discipline of business ethics may wish to reconsider their own ethical framework and the application of ethical theories using the following principles derived from the wide spectrum of relevant research presented on self-deception:

1. Self-deception affects *all of us* to varying degrees.
2. Self-deception *unconsciously* skews our worldview and self-image in predictable ways:

- a. We'll tend to minimize our weaknesses to avoid blame, criticism and responsibility in order to protect our self-presentation.
  - b. When we recognize potential mistakes, we'll tend to shift blame to others or to external circumstances.
  - c. We'll tend to exaggerate our strengths and claim successes that are not truly our own to bolster our self-presentation.
  - d. The discomfort of cognitive dissonance will not let us rest easy until we reduce it; if not directly, than by manipulating our perception through rationalizations and justifications.
  - e. We'll ignore disconfirming evidence, thereby increasing the chances of unethical behavior.
3. Behavior flowing from self-deceptive processes is unconscious and outside the present ability of an individual to control.
- a. There will be times when we are unconscious of behaviors flowing from self-deceptive processes.
  - b. There will be times when our groups are unconscious of collusion to protect one another's self-deceptive processes and cherished illusions.
  - c. These are the times of the greatest potential for unethical behavior.

From this foundation, we begin to realize that while unconscious, uncontrollable behavior is not blameworthy in the sense of deserving of judgment, stigmatizing, or ostracizing, nevertheless people can be held accountable for the consequences of the behaviors. To encourage greater self-awareness and therefore more ethical behavior, we must begin with ourselves by cultivating a supportive, nonjudgmental climate in our own inner world, moving on into the home, into our religious organizations and the workplace. We must encourage the conditions necessary for contemplation, reflection, and questioning, a time-tested foundation for developing the self-awareness necessary to make ethical decisions and our best hedge against becoming the victim of our own self-deception.

As individuals, we need to learn how to separate our thinking process from our emotional process. Currently our thinking is unconsciously in service to our emotional reactivity (not to be confused with higher-level human feelings and values). We need to practice being non-reactive to the emotional coercion of our fellow humans in small, everyday matters to build the muscle to act ethically and in accordance with our principles when it really counts. We need to learn to see events as the interaction of systems and recognize that in many cases, systems and situations are responsible for behavior rather than individual character. And lastly, we need to learn to recognize the self-justifying tendency to "demonize" anyone holding views different than our own. We need to cultivate the ability to welcome diverse views to seek out possible disconfirming evidence.

Suggestions for Corrective Action on the National/Organizational Level.

1. Return to higher standards of journalism and depolarize our collective thinking by utilizing factual, neutral language to describe events. The current use of polarized, judgmental language incites sensationalism and drama, promoting a climate in which it is extremely difficult to admit to mistakes, to learn from them, or to improve our business and legal processes.
2. Shift the focus away from identifying a scapegoat and placing it instead upon correcting systems, which are the primary drivers of behavior.
3. Acknowledge that everyone has blind spots and no one is exempt from self-deception. Quit pretending that our heroes can or “should” be “beyond reproach” and accept their humanity – while still holding them accountable.
4. Encourage interdisciplinary research into the intersection of human social systems and psychology, economics, and government with the aim of protecting humanity from its unconscious behaviors through sensible, ethical regulation.
5. Leaders need to hold and support the vision of transitioning from a culture of retributive justice to one based on restorative justice.

### CONCLUSION

I believe that people passionate about ethics are sensitive to the soul’s yearning for truth, and strive to cultivate the audacity and the courage to be authentically human. Unfortunately, having the desires to be authentic and ethical are insufficient to defeat self-deception: we are each *subconsciously* convinced that we, personally, do not deceive ourselves or others. Self-deception can only be exposed and reduced under the specific conditions discussed. This essay presented an integrated view of the phenomenon of self-deception as it pertains to the ongoing financial crisis to demonstrate its dynamics at work in virtually all human affairs, affecting each one of us.

In support of a restorative justice view toward human transgressions, it is interesting to note that of the Biblical Ten Commandments, none forbid lying or deception, perhaps just because such an injunction would be impossible to follow. Deception is so pervasive in the social world that assigning blame and guilt for lying in children is tantamount to placing them in a “damned-if you-do and damned-if-you-don’t” situation: lie and you are punished; tell the truth and you are also punished. Little wonder that we face so much anxiety growing up that we must form a self-protective system of defense mechanisms to keep our sanity!

In the Aramaic language, in which the ancient Syriac version of the *Bible* known as the *Peshitta* is written, the words commonly translated as “good” and “evil” are literally “ripe” and “unripe” (Douglas-Klotz, 1999: 1). Take as an example the verse: “Every good tree bringeth forth good fruit, but a corrupt tree bringeth forth evil fruit” (Matthew 7:17 KJV). When heard with “Aramaic ears”, those words might sound like this: “A mature tree brings forth ripe fruit, and an immature tree brings forth unripe fruit.” The emotional connotations and implications of these starkly different translations is immediately apparent: the word “evil” implies that a person is condemned as being inherently corrupt and deserving only of punishment; whereas “unripe” or “immature” implies a person who is simply in need of guidance or correction in order to grow into

their fullest potential. This is the nature of the fundamental shift in perception that I am proposing by taking a restorative justice approach to human behavior.

There was a time when everyone believed the world was flat when there was little evidence to contradict that “fact”. In a similar fashion, there was a time when we could easily sustain the illusion that all human behavior could be neatly divided into two distinct camps: right or wrong; good or bad. Now that scientific research is revealing to us the sheer intricacy of human psychology interacting within complex interdependent biological and human systems and how they drive a great deal of human behavior, we are called to question our long-held belief in this overly simplistic worldview.

Since to err is human, and to learn from our errors is the forerunner of excellence, we need to reflect these truths in our values, our ethics, our organizational leadership and our legal system, thereby mitigating the conditions that give rise to the need for self-protective defenses. It begins by removing the “beam” of self-deception from our own eyes lest we judge and blame others for the very same behaviors we unconsciously engage in. As long as we demonize others as a covert strategy to shift the blame, we cannot see our own contribution to the problem to correct it. As a society, we need to stop deceiving ourselves that our leaders can or “should” be “beyond reproach”, especially in view of the evidence that this attitude backfires, creating the very conditions that encourage self- and other-deception and lead to potentially unethical behavior. Our future financial stability and prosperous way of life may depend upon this fundamental attitudinal shift.

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