Algorithms Subverted by Negative Expectations

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Jeffrey Snider of Alhambra Investment Partners presented another fine example of the discordance, the mind boggling sense of unreality, that dominates the reasoning of those devising prescriptions for the ills of the world capitalist economy. Olivier Blanchard, a Fed functionary, presented a paper (which can be found on the web site of the institute founded by former commerce secretary Pete Petersen) in which he argues that low interest rates are not the cause of low productivity, nor are they responsible for low demand because all of the brakes on demand have been removed and we are now in a period of slow growth. But then he writes the following:

The argument has one flaw however. Brakes from the crisis may indeed be largely gone. But another factor, the anticipation of a worse future, is now at play. As argued above, the best guess, while far from certain, is that productivity growth will be lower in the future than in the past. The slowdown in productivity, which initially could be explained by the crisis, looks likely to have a more permanent component. Forecasts of long-term growth, and the general commentary in newspapers, are gloomy. I believe that this bad news about the future largely explains the relative weakness of demand today. Put in more academic terms, bad news about the future supply side is leading to a Keynesian slowdown, or at least a weaker recovery today. (I have argued elsewhere that some past US recessions were indeed due to pessimistic expectations about the future [Blanchard 2016].)

He then goes on to say that when a person's expectations on future earnings are lowered that will be followed by a reduction in his expenditures. And then:

Returning to the yield curve, this has a clear implication: As consumers' and firms' expectations are adjusting to lower long-run growth, demand is lower than it would otherwise be. Despite low interest rates, demand growth is weak, and the interest rate needed to sustain it is low. As the adjustment of expectations comes to an end, however, demand may well pick up, and the Federal Reserve may find that it needs to tighten rates substantially to avoid overheating. The rate that eventually prevails may be substantially higher than the rate prevailing today, and the true yield curve may be steeper than markets currently assume.

Snider is amazed that someone in Blanchard's position would make such an incredible confession. He's basically saying – Here we've proven with our most advanced algorithmic concoctions that we've turned the economy around. It is now growing and the future would be bright if only the consumer (the people) believed us and did what we have projected them to do. It's not the fault of the average person; they would believe us if it were not for all the gloomy reporting.

Actually, mainstream reporting on the economy has risked losing all credibility by constantly emphasizing the positive. They are like a physician promoting a placebo effect as a curative for a sick patient but whose health continues to fail because his illness is all too real and his intelligence all too knowing to accept bullshit as a healing salve. The statisticians have created a virtual world to test and develop their theories. They are then imposed on the real world where they are somehow supposed to be lapped up as if it were a reconstitution of all that it lacked. Something like anti matter seeking peace with matter. Snider does his bit to save the real world by keeping the hazardous terms of the unreal encased in >””< because a successful unification would be a very brief one.

In an article posted last year I cited the brilliant work of the mathematical physicist Roger Penrose who proved, rather convincingly in my opinion, that the human mind is not reducible to algorithms (*The Emperor's New Mind, Shadows of the Mind*). In simple terms we can say that the society we live in is an all encompassing creation of the human mind and body. When it sickens it cannot be cured by touching up the x-rays. The current financial schemes instituted to revive the economy are nothing more than such surface gestures.

Penrose worked with Hawking for many years developing what we know of black holes. Just as black holes attract and destroy all matter that approaches its event horizon, so does the vigorous cancer known as the unreal economy do the same to the real world that we live in. Thanks to Penrose and others we know where current economic thought will lead -- to a world of make believe extracting existence from reality.

The markets did a little better this week because of the steady flow of bad economic news. Manufacturing has joined construction in showing signs of weakness. New orders, PMI and employment are now firmly below 50 in contraction mode. Non seasonally adjusted construction grew 1.7% in July compared to 21% the previous July.

The August jobs numbers on Friday provided a wheezing thrill (low volume) for the markets because it was a lousy 151,000 -- well below the 204,000 last twelve month average. The jobs number isn't just a number, it's a "number" -- the fact that it doesn't really exist makes a sizable "number" all the more important. According to the BLS the total hours worked by all the employed had an average annual increase of about 2% from 1965 to 2000, but since the advent of the new millennium the annual increase has only been 0.17%. If this were Japan with it's population in decline, it would be understandable, but we have had something like 15 million population growth. The average weekly hours of all employed was 34.3 in August -- the lowest since early 2014. The average weekly aggregate for that month fell to the lowest since 2010. Earnings the lowest since January 2013. Following Blanchard's reasoning, millions must have left the labor force in order to expose themselves to enough negativity to make them depressed about the future.

A brief comment on an article by Bill Bonner (What Nirp and Zirp Have Wrought - Fake Money's Fake Out -- August 24) sent to me by DA. It's a long piece that says that we are stuck with a weak economy and an increase in poverty because of Fed policies. For support he presents a huge scattershot mess of everything but the kitchen sink while never letting anyone know anything about the real nature of a capitalist system -- It is a market economy (unplanned and weakly regulated) that is built to experience regular crises. It's had them since its inception. It is also built to impoverish (if it can get away with it) everyone but the last handful of capitalists still standing. That's the raison d'tre of a class divided parasitic dictatorship. In its early years the system had relatively quick recoveries. Now that it's long in the tooth they've become more frequent and prolonged. That is because it has saturated the world - that's why the great powers are fighting over every speck of the earth as a profit source. What critics fail to understand is that the cause of the current crisis is inherent in the system, and that the world central banks' monetary fakery is a panicky attempt to get a section of the economy going in order to prevent a total collapse. The financial sector is an obvious choice because it can generate "profits" even though it doesn't manufacture or sell anything real (hence, making it difficult to saturate the world with too much of nothing). Many critics go into hysterics when talking about the huge world debt that will never be repaid because they have yet to understand that when something is known to be impossible, then it cannot be real. When the next crisis occurs they will all get together and agree to mutual write-offs. I've dealt with these issues in an earlier article entitled *The Half Smart and the All Stupid*.

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