

# Causal Entropy and Central Bank Policy

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The Second Law of Thermodynamics, simply put, says that closed equilibrium states create a potential entropy or thermodynamic force that seeks to return non-equilibrium entities to its original equilibrium state and in so doing conserving the energy that made and constitutes it (the First Law). In doing this it seeks out the best pathways to maximize entropy – a dissipative process that increases disorder until it reaches equilibrium or the base particles from which all began.

The society that we non-equilibrium entities live in is an open, not a closed system. Society is also a non-equilibrium state that can willfully be altered in various ways. That does not mean the end of entropy or dissolution. Rather it means that energy released in the dissipative process can be channeled in such a way as to build new structures as the old one decays. The economy of the world is a system that under normal conditions creates as it decays. The form of a prevailing system does not remain the same throughout history. The four major forms that most humans have lived under through the ages have been primitive communism, slavery, feudalism and capitalism.

What has been happening worldwide since about 1980 is that the thermodynamic force has maximized entropy to the hilt with little of the dissipated energy being channeled into creating a system that maximizes the broadest range of human potential. The reason for that is clear: a tiny sector of that system is well satisfied with *their* maximized potential. Though maximized potential of non-equilibrium states also yields a maximized entropic thermodynamic force, human states have learned of ways to mess with the process. Thus that tiny ruling class has instructed the entities that run the worldwide economy to flood the main arteries of the dissolution process with a myriad of new structures each of which must be dissolved before the system as a whole can proceed to its pre-determined dissolution and reconstruction as a new and much improved social system. This explains the hollow bursts of growth amidst a sea of stagnation and slow dissolution. Eventual failure is certain. What cannot be determined in advance is whether that collapse will be so complete that the survivors will have to recapitulate, or retrace, much of known human history in order clear the ground to try again.

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One of the important readings of the economy that the Fed studies closely is the Labor Market Condition Index. It declined 2.2 in September. Every month but July has been negative.

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Along with the above another report this week served to vaporize mainstream positive talk. Chinese exports in September were down 10% from the previous September. US imports from China were down a 9% average the past six months. Have Americans suddenly become anti-Chinese? Not at all. The weakening of real income and concerns about the future have created a conservative approach to purchases.

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The British pound lost another three cents this week closing at \$1.21.

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The budget deficit in the last 12 months ending September 30 grew for the first time since 2009 -- \$587 billion from \$439 billion. Reasons: Increase in transfer payments (stimulus) and lower tax revenue.

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Retail sales (including autos) came in at a lower than expected 3.37% growth in September year to year. Better than the 2.39% the previous September, but since a figure below 3% is in recession range, still not good. That caused the Atlanta Fed to lower its projection of third quarter GDP to under 2% -- as late as August it was 3.8%.

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Navinden Sarao will be extradited from the UK to the US to face charges of causing the May 6, 2010 flash crash that caused the Dow to lose 1000 points and investors \$1 trillion of equity value. Sarao is said to have used spoofing techniques, initializing large transactions and then quickly cancelling or changing them, to make \$40 million over 5 years. As for the fancy 'flash crash' charge, the US Commodities and Futures Trading Commission has already determined that the Waddell and Read hedge fund by initiating a giant sell order. Looks better for capitalism to switch the blame from a large corporate hedge fund to a lone person doing trades from his parents home. From system to person.

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