



Epsilon Theory

Mailbag! Fall 2017 Edition

September 15, 2017

Back by popular demand, it's the *Epsilon Theory* Mailbag!

“Always Go To the Funeral” and “The Arborist”

Another rifle shot to the crux of the matter.

I would like to think that I, as a loyal reader of The Epsilon Theory, am onto many of the manipulations that you describe. But as I was reading this letter, I realized that I had fallen – lock, stock and barrel – for the powerful manipulation that you describe in connection with the removal of confederate statues. I, like you, really don't have much psychological or emotional investment in the statues themselves (although I do think they serve as a constant visual reminder of our conflicted history – a good thing, in my opinion). But I am quite psychologically and emotionally invested in the maintenance of civility and order.

The manipulators have done a great job causing me to transfer my investment in civility and order onto these physical statues, thereby putting me in the uncomfortable position of defending something I don't care that much about to prevent others (who represent things I abhor) from “winning.” But in the process, I now find myself siding with another group that also represents these same things that I abhor. This cognitive dissonance is the source of the increasing anger and frustration that many heretofore stable members of our society are now feeling and, unfortunately, beginning to express outwardly.

While I understand your point about “going to the funeral” of the “Cooperation Game” era of political discourse, I hope that is not a joint funeral with the “civility and order” era of society. I am afraid that might just be the case. I am especially worried about this because those (like the state) who, in the past, acted as a damper on disunion, incivility and disorder now seem to be the drivers.

Thanks again for putting a mirror up for those of us who strive every day to be a bit better (and smarter).
– Jeff

It's so easy to get pulled into these constructed, false “conflicts” ... we are truly hard-wired to respond to this stuff. I am constantly catching myself falling into this trap, and I write these notes as a self-help mechanism as much as anything.

I suppose that you read about the vandalism and subsequent removal of the Robert E. Lee statue at Duke Chapel. I am just wondering how long it will take for someone to vandalize the beautiful marble carving of Lee at Lee Chapel on the campus of Washington and Lee in Lexington, VA.

A week ago, somebody wrote to the local paper that the Confederate memorial in Elmwood Cemetery near uptown Charlotte should be removed. Only history buffs and PC activists even know that it exists - few people ever go to the cemetery, because it is just about full. (Charlotte native Randolph Scott is probably the most famous occupant, BTW.)

My father was Southern through and through, gentle, loved and respected. He named me after two of his uncles, who were named after famous Southern leaders. But he never bothered to tell me about his grandfather, who was wounded in Pickett's charge at Gettysburg and surrendered with Lee at Appomattox Courthouse, or his other grandfather who was killed at Gettysburg. And even more regrettable, he never told us a lot about his experiences in WWII.

All the best. I'll sign my entire name, just this time.

– *Houston Lee VanHoy*

On the other hand ...

Ben - as someone who lived in Charlottesville for a number of years, your logic was peculiarly fraught and tortured this week...intentional or not, your note misses a salient point of last weeks armed riot - yes there is no other word for it - in Charlottesville.

What it was at its core was an intimidating show of force replete with openly carried loaded automatic weapons and rifles let alone pistols/revolvers. This is indisputable and the only question is why? It's at least about promoting the myth that Confederates were not traitors, and deserve an honored place in our public square. I'm sorry if it makes anyone sad to realize their great grandfathers were traitors and racist, but there can be no justice until there is truth.

It's not a matter of rolling back history, it's a matter of presenting history accurately, and Lee and his ilk were prima facie traitors in every sense of the word to the United States and DIRECTLY responsible for hundreds of thousands of deaths. So why is Lee so exulted, and by extension, the Confederacy? It's because the demonstrators want to perpetuate and glorify the Rebellions myth, and deny that it was all about preserving and promoting slavery – that's a narrative that can be safely and properly consigned to museums at best, and have no place in our public square, esp. in federal places and local places where the local city/town wants them removed.

These people don't need any explanation or sympathy from someone as bright as you. If these statues are so trivial and unimportant to the South sense of self, why not just consign them to museums. Fascism precedes Antifa, i.e. it is axiomatic that there is no Antifa without fascism first. Fascism is not a response to Antifa - thats illogical. Anyone with real pride would actively move in this direction to dispel misgivings that the South has not risen above treason, racism and white supremacy. Should be a no brainer...do you see any statues to Benedict Arnold in the South?

If a right leaning local population wanted to someday rename Malcolm X Blvd, and militant armed blacks showed up shouting “death to whitey”, we can have a dialogue of equivalency in this regard. Until then you are way off and justifiably at jeopardy being labeled as enabling of Nazis and white supremacists. Hopefully this was a rare "own goal" and not intentional.

It's really not all that hard or complicated, and it only contaminates our politics when people make excuses for fascism and racism.

– *JD*

Aaaaand, there it is: I am “justifiably at jeopardy of being labeled as enabling Nazis and white supremacists” because I did not write a strong enough denunciation of Confederate statues. “Hopefully” this was not an intentional support of Nazis and white supremacists on my part.

I’m reading an amazing book right now, “The Three-Body Problem” by Cixin Liu, translated from the original Chinese by Ken Liu. It’s science fiction, winning the Hugo Award for Best Novel in 2015, and like all great science fiction it’s actually just great fiction, period. Great fiction forces us to see the world differently, and “The Three-Body Problem” — which starts off in 1967 China — has opened my eyes to an understanding of what the Cultural Revolution really was. I won’t spoil it any more than that, except to say that JD would have thrived within the Cultural Revolution.

I have been reminded this week of you saying (I think it was you) that real danger exists when we move from viewing each other as good people with different opinions, to viewing the people on the other side as evil!

If you are a rational person who believes that historic monuments in the South serve a purpose (I remember a family vacation to Stone Mountain where I learned all about the civil war), now you are on the side of the Nazi's – the damn Nazi's my Grandfather (whom I am named after) died fighting!!! It seems we are being put into a box where you must choose a side ... I believe both the President and fiat news are engaged in a war of propaganda ... dangerous times indeed.

– LP

We are ALL being played. Including JD.

“and by the way you're bonkers if you think the Russians altered the 2016 election by one iota.”

Interesting take. Can you explain to me why they – the Russians - would invest so much time and money on something that has absolutely no impact? Also, why do advertising firms exist and why is propaganda a thing?

– Jason

No impact? Russian chicanery had a HUGE impact on us, by sowing mistrust and apprehension about our electoral process, even though it had ZERO impact on the outcome. Best money the Russians ever spent.

The circumstances that create competition games can be overcome. As someone attached to the Nixon Administration, the fact that the core of the Republican Party in the House and Senate in the end refused to play those games (Goldwater, Rhoades [sic] and Scott being the emissaries that told him he had to leave) and Gerry Ford kept it from getting out of hand. It is difficult to see that dynamic in the current context. With the demographic Great Sort and the computer “optimization” of gerrymandering, and with apologies to W. B. Yeats, there is precious little center left to do the holding.

– AI

Yeats is getting quite the work-out in reader letters of late, for good reason.

If the centre doesn't hold, are discussions of Fed Policy ironic, comic or merely prosaic?

Naked Capitalism shut down their already Moderated comments today. Like many places in society, people are losing their minds and civility is breaking down.

Less recognized is that we are beset by fairly organized manipulation and disinfo.

As an exasperated friend put it, "don't people realize as a nation we are being trolled and all sides are falling for it?"

Parts of the media/gov/corps are doing the dog whistles while the rank and file of the same madly bark and bite.

Yeats poem "The Second Coming" is almost a cliché at this point. :-{

– Ron

There's still a center, but it's doing what the center always does in times like this ... we wall ourselves away inside our own individual gardens. We don't engage. We don't answer the phone. Ask anyone on the sell-side how their business has been over the past six months.

To loosely quote a line from Jerry Maguire, you had me at funeral attendance. I've often pondered what it is that brings those who attend a funeral so close together and I think it's because we see ourselves in that box in the not too distant future and would like to have someone there to mourn with and console our loved ones also. I too remember who has attended the funerals and wakes unfortunately associated with the family and friends I've lost and the kinship that lingers long after the sad day. The way you tied that together with your investment thesis further in the piece though was brilliant and struck a chord with me right to my soul. I have too often in the past let trades linger far longer than they should and it's just recently I've learned to adapt a similar strategy that you described so well.

I also agree with your assessment of the political landscape we're facing. I was truly hoping for an awakening with Trump's election, but instead we've not only extended the vast divide which began in the Obama years, but have actually increased it to the point I refuse to listen to the radio news, read the WSJ or pay attention to anything except what's playing on the Classical Rock station on XM. I guess it's the "head in the sand" theory I'm abiding by, but I believe I'm taking a similar approach to the one described in your approach to a trade. Everything I've thought about politics and politicians has led me to realize we've all made a very bad trade these past 20 years and the sooner we bury it and go to a new investment the better. I just hope we're all around to see it!

– John

What John calls "head in the sand" behavior is what I call "walled garden" behavior. It is the natural human response to a world being ripped apart by the centripetal spin of *constant* competitive games.

Has the change in politics from the cooperation game to the competition game occurred at other times in history? If so, how long did it typically last and was there a major turning point during that process that marked that it was coming to an end?

– Alex

This is an area where history rhymes, not repeats. Generally speaking, the only thing that gets a group out of a Competition game is an overwhelming external threat, like a war or natural disaster. The earliest recorded example of this would be the formation of the Delian League after the battle of Plataea in 479 BC, where the Greek city-states put an institutional structure around their alliance against Persia. This famously ends up becoming just a veneer for the Athenian empire, which some might say is the likely future for more recent Delian League structures like NATO. Pretty much any institutionalized post-WWII regime (Bretton Woods, the United Nations, etc.) is an example of Coordination game promotion. My favorite take on this is Alan Moore's *Watchmen* comic book series. Or you could watch the movie.

I think the below article might highlight how we can get back to the co-operative game. I had thought that Hillary should have chosen Kasich as a running mate (I am party agnostic – historically voted both parties) – while I can never prove it, but I think that ticket would have "won" going away and would have been healthy for the nation.

<http://www.cnn.com/2017/08/25/politics/kasich-hickenlooper-2020-unity-ticket/index.html>

– David

Seeing a lot of these cross-party and centrist match-ups of late, most of which feature Kasich. I dunno ... the problem with professional politicians is that they're professional politicians. The thought of leaving the cozy confines of the Party behind is just overwhelming. And the problem with non-professional politicians is that they're billionaires, with all the disastrous ego-driven consequences that brings. What we need is a grassroots movement that's both above and below party politics.

I think the political side of the competition game was firmed up with the Obamacare bill. No Democrat dared vote against; no Republican dared vote for. I see that as the official "us vs them" game which legitimized identity politics and ushered in Mr. Trump, who is both coach and cheerleader for his team in the competition game.

– Miles

In a lot of your writing, especially about Trump, you make it sound as if Trump is the one who broke us, who made the game go from cooperation to competition. In late 2015, early 2016 I reached the conclusion that the current monetary and trade system was unsustainable. And that was because the world has been functioning with a set of growth models that do not seem to deliver anymore (I would call them broken). Trump and Brexit happened later, I believe as symptoms.

I don't think Trump broke us. The world broke in 2008 and for 8 years we tried to cope and then balance sheets decided we needed a change and that was Brexit and that was Trump. Now, I do agree that he is different. He is a very good persuader (con-man?) and he comes with different ideas than what we have been told over the last 30 years or so.

Trump is an actor with individual responsibility, but he is also a product of a system which stopped working. And the game became competitive before him (see the Eurozone negotiations, see the increasing trade disputes during Obama).

Hillary was the great pretender, the magical thinking priest. "We are one happy family, let's hold hands and wish for the best" kind of thing. And I think that is why she lost. People thought they would get more of the pretense. Yes, it means stability, but is [it] also means not recognizing that the game had already changed. I believe many (especially lower income) households realized that "cooperation" had become an equivalent to "stuck", because there was no more tide to lift all boats.

– Nicolae

It's a fair point, that Trump is symptom rather than cause, and it's the central point that my partner Rusty Guinn was making in his companion piece, "[Before and After the Storm](#)" (or as I like to call it, "Make America Good Again").

<http://www.digg.com/video/tree-ladder-whoops>

– Jeremy

Thanks for sharing today. On the subject of going to the funeral and given your praise for Kevin O'Leary, knowing your appreciation for the cinema, you may recall Danny DeVito in [Other People's Money](#).

– Steve

An indisputable classic.

I've been interested in bonsai for many years and got into it a bit more seriously a few years ago (except with **tropical plants**) as part of my pre-retirement planning. I'm actually more partial to the original Chinese form Penjing which is a bit more disorderly (contrarian?) and metaphorically anti CB style. (It also means that whatever look I end up with can't really be a mistake either!)

"By and large, it seems that Japanese artists have a strong tendency to impose order on their creations, whereas Chinese artists appear willing to embrace a measure of chaos.

"Clearly, they are less concerned with rules and the pursuit of perfection. Does it mean that there are no rules in penjing at all? Absolutely not.

"Conversations with penjing artists reveal that they are less interested in displays of technical virtuosity and ideal form. Instead, they seek to capture and convey sentiment and mood in their work.

"Their goal is to reveal an inner beauty, an essence inherent in nature." Read more: <http://www.bonsaimary.com/Chinese-Bonsai.html>

We'll see if a computer algorithm can do that.

– Brian

Even if this isn't true (Japanese bonsai artists impose order while Chinese bonsai artists embrace an element of chaos), it sounds so smart and I want to believe it so badly that I am treating it as true. Much like most of our political discourse today.

Makes me think of a saying my mom learned from an Indian furniture dealer at the Dallas World Trade Center - "Show your face." Wedding? Birth? Anniversary? Funeral? "Show your face." This phrase has compelled me to put on many suits I did not want to wear and to take many trips to the hospital when I did not want to go. But there is always some joy to be found by doing so.

And I loved the part about the animals. Makes me think of an old Proverb I have taken to heart – "The righteous man cares for the needs of his animal, but the kindest acts of the wicked are cruel." This one definitely gets me out of bed on nights when I realize no one fed the dogs.

Regarding the life cycle of animals. I have long held that as a society we lose something when people, especially kids, think food comes from the grocery store. I.e., when there is no dirt involved with plants and no blood involved with meat. Even at their young ages, I have made sure my kids have had plenty of both under their fingernails. They may end up favoring country clubs to being in the country, but they will at least forever own by experience the baseline understanding of the cycle of life.

– John

I haven't been able to bring myself to raise animals for their meat. I blame it on the kids, but actually it's me.

An infestation of Oriental Bittersweet, privet or kudzu cannot withstand the focused attention of a herd of goats who will first attack the leafy greens and then the tender bark of the vines seeking the crucial inner bark which they will pursue all the way to the root. It is then the responsibility of the goatherd to move the goats before they begin to damage the desired grove, fortunately they barbeque up pretty good and I make an acceptable sauce...

– Joe

But goats are so damn cute. And they're good. In the moral sense, not the taste sense, although I suppose that, too. I'm so conflicted!

How can I, or any regular run of the mill person, practically and pragmatically get involved to help "design an operating system that can compete and win against the billionaires' operating system when the reboot happens"? I am asking with deference and humbleness...I am asking because I see what you see...I am asking because we (Americans or humanity in general...more along the lines of being an American) are

better than this. We are better than racial tension, Trump, Clinton, debt, in fighting, political nonsense, billionaires' controlling, etc., etc., etc. (the etc's could have gone on for a while). I am asking because words without action are like intentions and hell (the road to hell is paved with the very best of intention).
– Daniel

I've been wrestling with your question (What do we DO?) for a couple of years now, and I've come to the conclusion that political action on a national scale (third party formation, marches, etc.) isn't the way to go. Instead, it's hyperlocal political participation (city councils, school boards, that sort of thing) plus a national blockchain-based technology initiative to record video news so that it's searchable, discoverable, and unalterable. Sounds boring, but I think it's a transformative movement that we can ALL participate in. I'll be writing a lot more about this in the weeks and months to come.

I read a lot of financial newsletters. I have been associated with financial services for 35+ years. I have been to several goat-ropings, rodeos and state fairs, too. So, I speak with a modicum of knowledge.

I read this recent "Always Go to the Funeral" article. I hate to admit it, but in review, while it was entertaining, I gleaned no useful action tactics from the theme; though I must admit, it was well-written, as far as verbs & nouns are considered and with obvious learning from Shakespeare literature.

I am still waiting for some, ANY, direction from one of your articles. DO you expect to deliver an actual OPINION, with an action plan, soon?

– Steve

Short answer: No.

Long answer:

- a) **For regulatory purposes this note is considered to be "general market commentary" and not "marketing material". The day I start writing about buying XYZ stock or ABC fund, *everything* I write has to go through a much more laborious and time-consuming compliance process, and I wouldn't be able to publish to the broad audience that I want to speak to.**
- b) **I trust that my readers are smart enough to read a statement like "I think that inflation and interest rates are headed up, and will be moving up for a long time, with all the caveat emptor implications that brings for investors" and figure out for themselves what that means for an "action plan" for their portfolio.**
- c) **I'm a portfolio manager of a hedge fund and co-portfolio manager of a '40-Act mutual fund, one of which reports its positions publicly on a quarterly basis (HF) and one on a monthly basis (MF). It would be ... highly problematic ... for me to write about "actionable ideas" in ET when I'm already acting on them in an undisclosed way within these portfolios.**
- d) **Even if none of the above constraints existed, I still wouldn't write about buying XYZ stock or ABC fund. The world has enough ~~lots~~ financial newsletters as it is. There is bigger game afoot!**

"Small-I liberal virtues" are philosophically opposed to "really old school notions like feudal bonds of personal obligation and trust." The two cannot coexist.

The community supports both social and economic inequality (that's the feudalism of which you speak). It will, either gently or not-so-gently, repress the upstart individual.

For his part, the liberal individual supports, as you note, free markets and free elections. But these are precisely the things that undermine the feudal organization's bonds.

You are struggling to resolve the conflict that has perplexed us since the dawn of history. There is no known social organization that can capture the best of both small-I liberalism and the best of the bound community. The two have philosophies, bodies of knowledge that ultimately conflict.

– John

To your point, I'm not looking to establish some sort of communitarian/liberal combo society, because I think you're right about the incommensurability of how one defines justice and the good life within these two world views (Michael Sandel was on my dissertation committee). But I do think that there's a sense of *interpersonal obligation away from the State* that's front and center in, say, feudalism and theocracies and other admittedly illiberal societies, that is an extremely healthy corrective for the bastardization of liberalism that we live in today. Liberalism frowns on notions of personal obligation outside of contracts or self-interest, and you have to go to fairly extreme Rawlsian contortions to incorporate them. I'd like to incorporate more directly this communitarian gene of interpersonal obligation — a graft, to continue with the arborist metaphor — to create a liberalism that can stand up better to the Statist onslaught. Does that make sense? It's a long putt, for sure, but worth the effort.

“Horsepower”

Cosmic JD tractor déjà vu. The exact same tractor is parked in my hay barn, along with cool attachments that make it so versatile. Brush hog (on my second one, destroyed the first one through sheer stupidity) rotary tiller (don't try and plant wildflower plots without it) and the piece de resistance here in the snow belt, the snow blower with the six foot wide box. Heaven is a snow storm and 3 foot drifts on a long driveway. The farmer next door who taught me to run it scared the crap out of me by starting my tractor lesson off with “Up hill, down hill, never side hill. This thing will kill you” Then proceeded to list off all the people that had been killed on rollovers around us. So there are probably old farmers, and there are bold farmers, but there are no old, bold farmers. Kind of like PM's huh? My first year with it I ran it out of fuel while using the bucket to clear the driveway (pre snow blower era, the dark days) at 5 in the morning in sub zero wind chills. Found out quick you have to bleed diesel lines when you run out of fuel, unlike a gas engine with its fuel pump. Neighbors got a big kick out of that epic fail. Why would anyone want a Porsche when you could have a JD? Thanks for being one of the really insightful commentators out there, there is hope for this business after all I guess. And if not, I've got some more wildflower plots to put in. Thanks for your work.

– Mitch

Exactly like PMs. There are no old and bold portfolio managers.

I'm at the state fair in WI watching horse pulling right now. You're right about that collar, this is incredible.

– Adam

Changed the course of Western civilization.

As I was born in 1957, putting me in the largest birth year cohort of the generation. I can say from experience that low interest rates have caused me to save more not spend more. The whole Fed program of low rates since 1999, when Greenspan panicked about Y2K, has screwed savers and retirees (if they have any sense of risk). If interest rates were higher (and they manage to sidestep massive losses from the adjustment - e.g. at 1.9% inflation, in the old days the 10-year would be around 6%) maybe they would spend more and increase overall demand in the economy?

– Jim

YES.

But there IS a way back. And, no, not an individual, but a connection between the physical world and the intangible world of investing. We actually had it for quite some time and it seemed to work as a means of preserving a means of measuring the success of prosperity.

It is gold.

How much should the balance sheets of the world contract? By maintaining the balance between the demand for money and its supply. Or by keeping the price of gold stable; adding to supply when its price dips below a target or vice versa if its price should rise above.

Of course the VALUE of gold doesn't change - you can't manipulate it which is the source of its beauty (indeed its supply vastly outstrips any slight demand for it) - central banks actions simply increase or decrease the value of money relative to a stable unit of account.

You are lost in the world of interest rates. Interest rates are NOT the price of money; they are the price of credit. If you can make the leap, the rest is easy.

You can have stable money and volatile (freely market based) interest rates OR unstable money and stable interest rates, but you can't have both.

All the best. And, yes, we should build a statue to the man (woman?) who invested hydraulics - a genius to be sure; but also the creator of some fairly dangerous equipment.

– Charles

I've been promising Charles a Mailbag note for a while.

From my perspective, Uncle Sam, Japan, and the Euro Block (and probably others, certainly China) are hopelessly indebted with no natural way of escaping their debt tsunamis.

Thus I think it likely that each such country or block's central bank will buy and forgive ALL or essentially all such debt in "exchange" for a new regime of fiscal realism and a corresponding new currency such as the "New Dollar".

I wonder what your thoughts are of the likelihood of this, and what would be the best positioning for individual financial survival?

– Gary

If things get bad enough, I don't think this is a crazy scenario at all. Google "trillion dollar coin" if you want to see how close we've gotten already. This is Jubilee, and the survival scenario is pretty simple — be a debtor in a developed country participating in the Jubilee. Even a creditor can do okay, because you're going to get unbelievable political power out of this. Just don't get caught outside the Jubilee zone.

Your comment suggests that Uber is actually able to make transportation a breeze, but this service doesn't happen to increase overall economic productivity in line with consumer appreciation of its service. This is wrong. If you look at the actual economics of Uber's business model and the economics of urban taxi service, you will quickly see that Uber' isn't just "relatively unproductive", its productivity impact is powerfully negative. Uber is substantially less efficient than the traditional taxi companies it has been driving out of business, and has absolutely no hope of achieving profits or shareholder returns unless it achieves Amazon/Facebook like levels of artificial market power. Companies like Amazon and Facebook can reduce productivity and overall economic welfare once they achieve the levels of artificial market power they now enjoy, but in order to achieve that power they actually developed highly productive operating models and introduced totally new products offering huge new consumer benefits. Uber's business model was always designed to skip the hard "figure out how to provide services vastly more efficiently than existing providers" part of the equation, and have been using \$13 billion in VC cash to achieve industry dominance by subsidizing the huge losses needed to drive existing providers bankrupt. Capital Markets—by explicit design—have been reallocating capital from more productive to less

productive uses. If successful, a handful of billionaires would become even more wealthy, but overall economic welfare and the productivity of urban transport would be significantly reduced.

– *Hubert*

I drive for/use Uber because:

- A. My college degree is worthless.
- B. I can't get a "real" job.
- C. I'm in debt.
- D. I can't afford a simple house and car in the suburbs.
- E. I'm what you might call "poor" in old-school terms.
- F. All of the above.

– *anonymous*

Heard.

The movement you speak of in the last paragraph... is that demand created by Adam Smith's unseen hands? What will drive it? As you know from previous communications I think that the low productivity growth is partially driven by the unmeasured deflation inherent in your first explanation of measuring productivity all wrong. We measure productivity in terms of growth of output dollars per man hour. But in a deflationary environment we can grow output in units while the dollar value of that output declines (we have exchanged notes on that before). But I think the same phenomenon is responsible for the low wage growth to boot. So many commentators are puzzled by the fact that, given all the stimulus we have injected into the economy, why we have seen no inflation? My reaction is, given the tech revolution going on, we are in a sharply deflationary environment so the fact that prices haven't gone down, shows the stimulus HAS brought inflation. But that inflation merely has brought price declines to zero. I.e. if we start with, say, 6% deflation but prices are flat, it means the easy money has generated 6% inflation that offsets. I also think that population demographics have a lot to be explored further. If our population is getting older and birthrates are insufficient to replace, we start trending down in the number of people. That has to have a depressive effect on GNP. But look at Japan, they have stably sustained such an environment for decades. So it strikes me that the relevant measure may not be aggregate GNP but GNP per capita. I.e. you can sustain negative GNP growth as long as it declines at a lower rate than the underlying population such that GNP/head (wellbeing?) is actually growing.

All of this is well and good, but given the explosion in worldwide debt it is still dangerous. The best way to fix that problem is inflate our way out of it. And for that we need real absolute growth. You suggest that that will come from your Maker Movement. But I am wandering what will spark that movement into being?

– *Jacob*

A small group of thoughtful, committed citizens. It's the only thing that ever has.

Is it also possible that productivity has collapsed because of the burden of over-extended government regulation in a post-GFC world?

Take financial services for example. Let's say headcount has stayed constant. The make-up has changed materially. We have fired 4 traders and/or analysts and hired 1 programmer and 3 compliance offices.

Buy and sell side alike. With SarBox, Dodd-Frank, Volcker Rule, MiFid II, Basel III, short-sale restriction etc. the massive growth in headcount has been on compliance officers and paralegals and not every programmer is replacing the former traders or analysts but some are coding to prepare reports sent to regulators, exchanges or investors. This is the high of a productivity free fall.

I can't speak to other industries as directly, however, I imagine directionally the pattern is similar.

– *Rich*

I used to pooh-pooh the whole regulatory burden thing as more of an excuse than a reason. But I was wrong. The struggle is real.

Good stuff as always, but your analysis of the buybacks misses one key point – buybacks are a return of capital and you do not know (cannot know, actually) how that capital is being used. So on a superficial level you can say capital is not being reinvested, but in fact it very well may be – in fact, probably, since most shares are held institutionally, and the cash received would stay in a portfolio and be reinvested elsewhere.

The desirability of buybacks is debated perpetually, but I fall on the side of favoring them. If management really does not see a good real use for the capital, I would prefer it be reinvested elsewhere, rather than wasted internally on inferior return projects. I think this is healthier for the economy too.

As an aside, I think the “lack of productivity” issue is a measurement problem. There are a hundred little things that technology enables nowadays that we take for granted, and would be productivity killers if we lost them – but I don’t see how we can measure it. For instance, try calling an airline to book a ticket rather than using Expedia. You will waste a half hour on a 5 minute task. Or ordering anything on Amazon, versus driving to 20 stores looking for it. Or count the number of emails and texts you send in a day, and consider the time that would be required to make the same communications by phone call. Start looking for these instances in your daily life and you will quickly realize the productivity gains that we are making, without realizing or measuring it. “Things produced” may not show it, but time saved certainly would!

– Gary

Reinvestment in public markets never gets to the real economy. Never. I know we’re all taught that $S = I$, but not all I is created equal.

Trust me, I get the power of stock buybacks, and I’ve had this use-of-cash conversation with management in hundreds of 1-on-1s. That’s literally hundreds. But the inferior return of investments in plant and equipment in a ZIRP world is exactly my point!

As for the “time savings” argument ... hang on a second, I gotta check my Twitter account and see if I’ve topped 10k followers yet ... that’s big, you know?

As always, great piece. I would add one more explanation to the “low productivity” problem. Whereas in decades past, employees would spend minutes a day on break or at the water cooler, they are now spending hours at their desks on social media, yet employers still report them working 40 hours per week. The reality is that many of these employees are actually working for 35, 30, or even fewer hours per week. What this does is increase the denominator and make it look like productivity per hour is low. The reality is that we should be measuring actual hours worked rather than hours in the office.

This is not just a theory, as there is abundant anecdotal evidence. I am 45 and spend approximately 0 hours on social media, but have asked millennials about it and they confirm my suspicions. They even talk about being criticized for not “liking” comments and photos fast enough. How can you “like” something that quickly if you wait until you get home that night?

Surprisingly, I have read very few articles about this explanation presumably because well-known economists are 50+ and use social media about as often as I do...

– Sean

I think this is a big reason why our “time savings” from technological process conveniences (Google, Amazon, etc.) never translate into production or productivity. We amuse ... hang on ... YES, I’ve topped 10k followers! ... seriously, go see [@epsilontheory](#) ... finally! ... ourselves to death.

Really enjoyed your expansion on why productivity hasn't risen as much as one would suspect from technology. I think it may be due to the "Slacker Effect".

I have noticed that many young people nowadays graduate from college and don't really want a "real job". Even though they are well educated and smart, they prefer to do something pretty mundane and low pressure. Often they provide some kind of personal service in an area they are interested in such as personal training, dog walking, or personal assistant/nanny. Of course there isn't a whole lot of productivity gains possible in those fields and it doesn't leverage their education and abilities very much. It does dovetail nicely with inequality, since there is a good sized population of extremely rich individuals who desire a lot of personal services.

Basically, we have developed a small producer population that is enormously well compensated, leads very high pressure lives, and is serviced by the rest of society.

So in that way the changes we have seen with economic inequality and low productivity gains are politically stable and actually desired by much of the population. Probably destined to continue, notwithstanding hand wringing by economic bloggers.

– Keith

Now read this ...

Maybe I'm missing the point of "Horsepower", but if you are advocating for making and buying stuff over seeking out experiences, whether as a provider or a consumer, or both, I think you are completely off base. Marx was all wrong about economics and politics, but, oddly for an academic, he showed some insight on actual life when he inveighed against soul-destroying alienation. And it seems to me that what's important about your tractor (to you - not me, and not the economy in general) is not the making of it (which would best done by robots), or the buying of it (which decreases your freedom of action in life by decreasing your stock of money), but the experience of using it, whether or not you ever turn a notional "profit" on what you do with it, or contribute to the GDP. The value of stuff to humans lies in the positive experiences they derive from it, and as your Emily Dickinson quotation avers all we need to make a prairie is reverie.

As even high level "white collar" jobs are overtaken by AI-driven automation (yours, financial analyst - my former job, software developer) it can beneficially force us to rethink our lives, devolve economically (scaling back both our getting and spending), and focus more on what's truly most valuable to us - the pursuit of just the right mix of personal experiences.

– John

Yes, I agree.

I agree that you've missed the point of "Horsepower", you've missed the point of Marx, and you've missed the point of Emily Dickinson. There's a whole Jamie Lee Curtis riff on this in one of my favorite John Cleese movies, *A Fish Called Wanda*, but I'll save that for another day.

The part that struck a chord with me was the marketing of an experience based economy over stuff.

As millennial living in Sydney Australia, I have seen many of my friends adopt that experience oriented mindset which encompasses - going to clubs and raves, extravagant holidays and buying food at work. Which equates to zero savings and even going into debt whilst still living with the parents when they all have well-paying jobs.

As a poker player, I interpret this behaviour as going on tilt. An indirect wave of the white flag over prospects of home ownership (prices are crazy) and a lack of trust in the social contract. You are completely right in seeing this as a distraction but calling it "experience economy" ennobles and empowers this irresponsibility. As a society, you can have another generation with the same bad financial habits of the previous.

I see real danger in this trend and the stakes are underestimated. Because if too many liabilities are placed into the future, it means too many liabilities are placed on the government and most social upheavals are the result of such economic problems. This will increase the intensity of identity politics and fans the fires of resentment of the have-nots. I am a small L Liberal because as a child, I heard stories of the Cultural Revolution from my dad. Once a significant portion of the population is poor, you really see the dark side of human nature come out, there will no longer be any small L liberals. My grandfather was a farmer's son who became a surgeon who donates most of his pay to the relatives who are still struggling farmers. As an individual, he should have been a poster child of the rags to riches story. In the identity politics of the Cultural Revolution, he was categorized as the elite and social parasite and rallies were held to berate him and his cohort. If capitalism is perceived as failing, the stakes are enormous to human liberty and rule of law.

– Shaun

Well said, Shaun. Well said. I'll stake you any day.

“Before and After the Storm”

I often think that the big divide in this country is between Rural and Urban.

Currently, I see amazement among (I suspect) Urban writers re the Volunteerism in Houston. But it doesn't take a large-area emergency for this to happen. Fully 1/3 of our National Population is served by Fire Cos. that are Volunteer. I suspect the numbers are similar for EMT's. In Rural America, it's a daily occurrence.

– Ron

YES.

Rusty's piece is superb. I love the Durant book that he recommends. He fails to mention that it's only about 100 pages. There's no excuse for people to ***not*** buy it and read it. I have a first edition on my office bookshelf. My ***only*** quibble with the book is that they understand the broad sweep of history, but get things wrong about the decade in which it's published. They perceive the civil rights movement as a minor passing thing, rather than a seminal change in racial attitudes. And – get this – they dismiss Warhol as ridiculous non-art that will be forgotten in no time! I think the book should be required reading for all University history majors ... except the chapter on current events (i.e., the 1960s).

FWIW, I'd say the same thing about “Devil Take the Hindmost,” published in June 2000, which is a fantastic book about bubbles and crashes, but didn't treat the tech bubble with anywhere near the wisdom or depth of previous cycles. In other words, historians should stick to history, not current events that haven't yet revealed their historical role or import.

– Rob Arnott

I've got *The Story of Civilization* set in my office ... they were my father's, and the pages are all marked up with his underlining and notes. It's my best connection to him, gone 20 years now.

The inclusion of ARC on your list of "vetted" charities makes me think that it is not a very good list.

– AI

Yes the American Red Cross was vetted, yes we've read the Pro Publica report (and others), and yes this is the subject of a vigorous internal debate at Salient. I respect your negative experience with the ARC, although I've had a very different experience and am convinced by the commitment of the volunteers and paid professionals I know there.

Ultimately it was my decision to include the American Red Cross on the list of recommended charities, and I stand by that decision.

Last summer we had the opportunity to drive through Houston and the whole area en route to a vacation cruise. We noticed two things:

1. the area is massively overpopulated; and
2. it's low.

As we traveled toward the gulf, we noticed it seems the entire region is only two feet or so above sea level. We thought how lucky the people in these areas have been. A tsunami from an earthquake or volcano will literally wipe out vast areas and millions of people – living where they ought not to live. Or a real genuine large hurricane with 175 -200+ mph winds with a 15 - 20 storm surge going onshore.

Instead, at this time mild mannered Harvey came but with lots of rain!

We noticed the TV videos of the flood areas and they appeared to be connected to rivers. Indeed, it was obvious that the worst areas, maybe all areas, were floodplains. 100% certain to be engulfed in water. With more than 100,000 homes ruined, it suggests the scope of the destructive policies. Then we learn that the Houston, specifically, area has little if any development zoning controls. Likewise, Katrina in New Orleans flooded places where no development should have ever been done. Increasing population in our already overpopulated country implies greater calamities around the corner. Seems you are missing the point.

Trying to make the world feel sorry for bad things that happen to people and will happen because of destructive policies is not helpful. To be certain, those people we see are living a very sad situation. But the situation was caused by developers and their government subsidiaries. Incredibly, they prey on entire populations.

Totally avoidable.

– Dell from Minneapolis

My first instinct to this letter was to respond with anger. I mean, I was going to tear Dell from Minneapolis a new orifice. Really let my freak flag fly, you know? And I still can't help myself completely. It's just too enticing, what with the whole "en route to a vacation cruise" set up. But then I read this below, from a Team Elite Ministry of Truth platform called [Project Syndicate](#).

Hurricane Harvey has left in its wake upended lives and enormous property damage, estimated by some at \$150-180 billion. But the rains that inundated the Texas coast for the better part of a week, and the hurricane that is about to hit South Florida, also raise deep questions about the United States' economic system and politics.

It is ironic, of course, that an event so related to climate change would occur in a state that is home to so many climate-change deniers – and where the economy depends so heavily on the fossil fuels that drive global warming. Of course, no particular climate event can be directly related to the increase in greenhouse gases in the atmosphere. But scientists have long predicted that such increases would boost not only average temperatures, but also weather variability – and especially the occurrence of extreme events such as Hurricane Harvey. As the Intergovernmental Panel on Climate Change **concluded** several years ago, "There is evidence that some extremes have changed as a result of anthropogenic influences, including increases in atmospheric concentrations of greenhouse gases." Astrophysicist Adam Frank **succinctly explained**: "greater warmth means more moisture in the air which means stronger precipitation."

To be sure, Houston and Texas could not have done much by themselves about the increase in greenhouse gases, though they could have taken a more active role in pushing for strong climate policies. But local and state authorities could have done a far better job preparing for such events, which hit the area with some frequency.

In responding to the hurricane – and in funding some of the repair – everyone turns to government, just as they did in the aftermath of the 2008 economic crisis. Again, it is ironic that this is now occurring in a part of the country where government and collective action are so frequently rebuked. It was no less ironic when the titans of US banking, having preached the neoliberal gospel of downsizing government and eliminating regulations that proscribed some of their most dangerous and anti-social activities, turned to government in their moment of need.

There is an obvious lesson to be learned from such episodes: markets on their own are incapable of providing the protection that societies need. When markets fail, as they often do, collective action becomes imperative.

And, as with financial crises, there is a need for preventive collective action to mitigate the impact of climate change. That means ensuring that buildings and infrastructure are constructed to withstand extreme events, and are not located in areas that are most vulnerable to severe damage. It also means protecting environmental systems, particularly wetlands, which can play an important role in absorbing the impact of storms. It means eliminating the risk that a natural disaster could lead to the discharge of dangerous chemicals, as happened in Houston. And it means having in place adequate response plans, including for evacuation.

Effective government investments and strong regulations are needed to ensure each of these outcomes, regardless of the prevailing political culture in Texas and elsewhere. Without adequate regulations, individuals and firms have no incentive to take adequate precautions, because they know that much of the cost of extreme events will be borne by others. Without adequate public planning and regulation, including of the environment, flooding will be worse. Without disaster planning and adequate funding, any city can be caught in the dilemma in which Houston found itself: if it does not order an evacuation, many will die; but if it does order an evacuation, people will die in the ensuing chaos, and snarled traffic will prevent people from getting out.

America and the world are paying a high price for devotion to the extreme anti-government ideology embraced by President Donald Trump and his Republican Party. The world is paying, because cumulative US greenhouse-gas emissions are greater than those from any other country; even today, the US is one of the world's leaders in per capita greenhouse-gas emissions. But America is paying a high price as well: other countries, even poor developing countries, like Haiti and Ecuador, seem to have learned (often at great expense and only after some huge calamities) how to manage natural disasters better.

After the destruction of New Orleans by Hurricane Katrina in 2005, the shutdown of much of New York City by Sandy in 2012, the devastation wrought on Texas by Harvey, and now the prospect of Irma pummeling Florida, the US can and should do better. It has the resources and skills to analyze these complex events and their consequences, and to formulate and implement regulations and investment programs that mitigate the adverse effects on lives and property.

What America doesn't have is a coherent view of government by those on the right, who, working with special interests that benefit from their extreme policies, continue to speak out of both sides of their mouth. Before a crisis, they resist regulations and oppose government investment and planning; afterwards, they demand – and receive – billions of dollars to compensate them for their losses, even those that could easily have been prevented.

One can only hope that America, and other countries, will not need more natural persuasion before taking to heart the lessons of Hurricane Harvey.

– Joseph

This is not from Dell from Minneapolis, driving through Houston on his way to a cruise and making some off-the-cuff and ignorant comments. This is Joseph Stiglitz, Nobel Prize winner. This is Joseph Stiglitz, former chief economist of the World Bank. This is Joseph Stiglitz, former chair of the President's Council of Economic Advisors. This is Joseph Stiglitz, former chair of the U.N. Commission on Reforms of the

International Monetary and Financial System. Dell from Minneapolis is not one of *Time* magazine's 100 most influential people in the world. Joseph Stiglitz is.

Now I'm not going to get into a blow-by-blow response to this Stiglitz piece, although like Dell from Minneapolis's masterwork, there are some flowers here that I can't help but pluck ("America and the world are paying a high price for devotion to the extreme anti-government ideology embraced by President Donald Trump and his Republican Party." If only we had had a president for the past eight years who considered climate change to be our #1 national security concern. Just imagine how much better off we would be today.)

But I'll say this. The smiley-face authoritarianism that oozes from this article, the not understanding and the not *wanting* to understand the facts of Houston and Harvey, the global system that awards Stiglitz — an intelligent man who knows better — its highest accolades and sweetest rewards for his betrayals of truth-seeking, the sheer mendacity of the effort ... this is our enemy. It's my enemy, anyway. And combating it will be a life well lived.

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