

Why things are falling apart and what we can do about it
Charles Hugh Smith

The title borrows from an apocalyptic poem by William Butler Yeats

Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.

The author, Charles Hugh Smith, is a sympathetic character, in full control of the terms by which he leads his life. He makes his roots only somewhat obscure. He was born in the early '50s and hung around the Berkeley scene, drinking from the heady brew of 70s hippydom. Somewhere along the way he sobered up, became a successful freelance writer, and began to concern himself with matters of global and personal finance.

Smith is correct in claiming that his gift is in explaining complex systems and phenomena to the layman. His thesis is somewhat like this.

All life in the United States and the Western world has become more complicated over the course of history. The complex systems he describes include government, medicine, and banking.

A system is not a thinking entity. Moreover, almost every system is far too complex to be completely understood or modeled. Witness the incredible difficulty that climate scientists have in modeling climate change. Models are absolutely essential to understanding, but on the other hand they are always incomplete. The same can be said of the economic models used by hedge funds, corporate treasurers, and government entities.

One characteristic of all of the models is that understanding them requires a thorough knowledge of the field in question. In other words, a good understanding of how the banking system requires a depth of study that is beyond the capacity of most people. Even if one were to assume that all citizens were equally capable of grasping the concepts, the mere fact that some have other work to do as doctors were salesmen or in other professions would preclude their learning the banking business.

The upshot is that people who understand the complexity in any particular field have an advantage. As the government has become more and more deeply involved in every aspect of our lives, they are able to translate that advantage into law.

This leads to another of Smith's observations, that a healthy level of competition, the creative destruction described by Joseph Schumpeter, is essential. It is, however, being smothered. Squelching competition benefits the vested interests. The vested interests make sure that they have priority in providing input to the legislative process. The interests of the bankers, the insurance companies, the home mortgage companies, the education industry and the defense industry are well represented in Congress. The interests of the taxpayer are diffuse and poorly represented. The more complicated government becomes, the more involved it becomes in the above named fields, the less opportunity there is for creative destruction to get rid of inefficient processes. Quite the opposite, the inefficiencies compound themselves and the ordinary citizen pays for it.

Smith refers to modern work on self-deception, without naming the authors who include Tversky, Kahneman, Trivers and Ariely, to describe the way in which the various actors in these systems rationalize their counterproductive activity. He would encourage the thinking citizen to examine the systems and share his conclusions that their dysfunctional and project the way out of the morass.

That is where I part company in some part with Smith. He is more optimistic about the human animal than I am. He believes that we have the intelligence and goodwill to perceive the problems, and that once the majority of us do, we can set about fixing them. My observation of the electorate does not lead me to this level of optimism. I am more in the doom and gloom camp of the authors of "Reinventing Collapse" and "Convergence of Catastrophes." I think that, in Smith's own words, the present system will have to "run to failure," in other words completely break down before we will be able to replace it. I live in Ukraine which has so far not managed after 20 years to replace their failed socialism and discard the false assumptions about human nature which undergird it. I cannot be optimistic that even in collapse the citizens of the United States will figure out which way to go. I refer readers to my review of "Convergence of Catastrophes" for a catalog of the false assumptions that will have to be swept aside in order to establish a firm foundation for something new.

Where Smith and the other authors would agree is that the something new would have to be more akin to the vision of the Founding Fathers than the modern welfare state. It would have to posit individual responsibility and acknowledge the differences in individual ability.

I conclude in giving this book five stars for the clarity with which Smith writes. I find his rather forced optimism to be reassuring. It is better than a "we are all doomed" message, and it asks the reader to examine the reasons why we may not be doomed. I hope you find them more convincing than I.