Hormegeddon: Too Much Economics. Excerpt from Bill Bonners new book: How Too Much of a Good Thing Leads to Disaster. From The Casey Report, 7 August 2014.

Chapter Two: Too Much Economics

> *"Can you by legislation add one farthing to the wealth of the country? You may, by legislation, in one evening, destroy the fruits and accumulations of a century of labour; but I defy you to show me how, by the legislation of this House, you can add one farthing to the wealth of the country."*
>
> *—Richard Cobden*

Friedrich Hayek made the point on numerous occasions that the more a person has been educated, the greater the likelihood he is an idiot. That insight may or may not be true of those who spent their school years in engineering and science; it is certainly true for those who have studied economics. The more they have learned, the dumber they get. Like a cloud rising against a mountain, when a young person enters the economics department, the higher up the academic slope he goes, the more the common sense rains out of him.

The trouble with The Economist, The Financial Times, the US government and most mainstream economists is not that they don't know what is going on, but that they don't want to know. It would be counterproductive. Nobody gets elected by promising to do nothing. Nobody gets a Nobel Prize for letting the chips fall where they may. Nobody attracts readers or speaking fees by telling the world there is nothing that can be done. Instead, they meddle. They plan. They tinker. Usually, the economy is robust enough to thrive despite their efforts. But not always.

From 2007-2012, Nobel Prize winning economists Paul Krugman and Joseph Stiglitz, along with celebrity economist, Jeffrey Sachs, and practically all their colleagues, failed to notice the most important happening in their field. This in itself was not news. Not noticing things came easily to them, like second nature. In fact, you might say they built their careers on not noticing things.

Blindness was part of their professional training. It was what allowed them to win coveted prizes and key posts in a very competitive occupation. Had they been more reflective, or more observant, they would probably be teaching at a community college.

Their obstinate dedication to being unaware marks the culmination of a long trend in economics. By the late 20th century, leading economists *preferred* not to look. They closed their eyes to what an economy actually is (to how it works) and focused on their own world—a make-believe playground of numbers, theories and public information, with little connection to the world that most people lived in.

Irving Fisher, one of the greatest economists of the 20th century, on September 5, 1929: "There may be a recession in stock prices, but not anything in the nature of a crash."

Julius Barnes, head of Hoover's National Business Survey Conference, announced in 1930: "The spring of 1930 marks the end of a period of grave concern. American business is steadily coming back to a normal level of prosperity."

And now, in the 21st century, more than 75 years later, economists are up to more mischief. And part of the mischief involves not noticing things that are under their noses, including the fact that their discipline is 90% claptrap.

Minutes of the Federal Reserve's Open Market Committee meetings, released in 2013, showed that neither Ben Bernanke, the Fed chairman, nor other key decisions makers had any idea what was coming their way in 2007.

"My forecast for the most likely outcome over the next few years," opined Fed governor, Donald Kohn, "is…growth a little below potential for a few quarters, held down by the housing correction, and the unemployment rate rising a little further."

Ben Bernanke set the pace for his fellow Fed officials back in 2005, with a stunning display of arrogance and ignorance about the threat derivatives posed to the global financial system:

> "they are traded among very sophisticated financial institutions and individuals who have considerable incentive to understand them and to use them properly. The Federal Reserve's responsibility is to make sure that the institutions it regulates have good systems and good procedures for ensuring that their derivatives portfolios are well managed and do not create excessive risk…"

Then, two years later, he was at it again:

> "At this juncture…the impact on the broader economy and the financial markets of the problems in the subprime markets seems likely to be contained…"

Again, in 2008: Fannie Mae and Freddie Mac were "adequately capitalized," he said. They were "in no danger of failing."

In the financial pile-up of '08-'09, derivatives did, in fact, create so much risk that the system couldn't handle it. Subprime crashed. Almost every financial school bus was dented. And practically all of Wall Street—Fannie and Freddie too—had to be towed away.

And then, in 2013, Ben Bernanke, as blind to the approaching financial disaster as a pick-up truck to a brick wall, was driving the whole world economy.

That economists are incompetent hardly needs additional evidence or argument. But they are far from being idiots. On the contrary, they are too clever by half. They are such able swindlers and accomplished charlatans that they convince themselves of things that couldn't possibly be true. They do so for reasons of professional vanity…and for money.

Ben Bernanke's ridiculousness was not the exception to the rule. It *was* the rule. He was following a hallowed tradition.

These economists made themselves into useful stooges by creating a simpleton's model of the economy. For simplicity's sake, I will refer to this model as the Simpleton's Economic Model, or 'SEM' for short. So stripped down, shorn of all nuance and ambiguity, that it bears no relationship or resemblance to a real economy. It is like a stick figure that is meant to represent a real human being.

Still, SEM is something economists can work with. It brings them PhDs and Nobel prizes. It makes people think they know what they are talking about. It both justifies and permits naïve meddling—like a surgeon whose only training comes from studying stick-figure diagrams.

At its most basic level, SEM requires that complex economic transactions be reduced to numbers and statistics. This alone is fraudulent, as we will see. Then, based on these numbers economists are able to do math—the more complex the better—to arrive at results that are internally coherent but describe life in a parallel, artificial and unreal economic universe. The SEM begins with a statistical construct—the average man—who doesn't exist (nor has ever existed) in reality. There is a simple example that illustrates how hollow this construct truly is:

Imagine Warren Buffett moves to a city with 50,000 starving, penniless beggars. This is what economists would say about that city: "Stop whining…the average person in the city is a millionaire."

Statistically speaking, the economist would be correct, but ultimately be peddling a form of information with negative content. After you heard it you would actually know less than you knew before. This, by itself, is destructive enough, but it's what happens next that is the real problem.

On the foundation of fraudulent numbers and empty statistics like these, economists build a whole, elaborate tower of hollow, meaningless facts and indicators: the unemployment rate, consumer price inflation, the GDP. None are 'hard' numbers, yet the economist uses them as a rogue policeman uses his billy club…to beat up on honest citizens.

Economists, with their scammy numbers and slimy theories, are an important element of central planning, an essential ingredient for hormegeddon.

Ain't No Average Man

Unlike a real, hard science, you can never prove economic hypotheses wrong. There are too many variables, including the most varied variable of all—man. He will do one thing sometimes, another thing the next time, then something else the time after that. Sometimes he seems to respond to economic incentives. Sometimes he's out to lunch. Why? Because every man is different. Unique. Infinitely complex. And thus, ultimately unknowable.

The problem with this is that you can't do much central planning in an economy where all the key component parts are unique and unknowable. You'd have to strip them of their particularities, reducing them to a simpler figure that you can work with—the average man. This 'average man' bears no resemblance to a real man. But he is useful to the economics profession. He is predictable, whereas real men are not. He will do their bidding; real men will not. He is like an interchangeable part in a vast machine, a cog; again, real men are not that way.

You turn a man into a stick figure with numbers. You say that he has 2.2 children. Or that he earns $42,500. Or, that he is 7.8% unemployed. None of it is true. It is all a convenient fabrication.

If you could get man to do what you wanted, you could, in theory, operate a centrally planned economy successfully. It has never happened. Because man is an ornery fellow, prone to putting a stick in the economists' wheels. Not that he is malicious or obstructionist. It's just that he and only he really knows what he wants; and he changes his mind often.

The Economy of Stuff

Ultimately, economics is about material wealth. It's about stuff. Economists' conceit is that they can help people get more of it, that they can bring the average man more wealth, by improving the unemployment rate or boosting the GDP growth rate or increasing some other fraudulent number they created with one of their prize-winning theories. With more stuff, they contend, the average man will be better off.

But stuff doesn't automatically have a fixed value. What is yesterday's newspaper worth? How about a painting? Or an ounce of gold? Or a pound of frogs' legs?

The value of Stuff is established by people. They declare their interest in stuff by bidding for it in the market. Thus do they set the price for a loaf of bread, a share of Google, or an hour of someone's time. Markets are not perfect. They never "know" what the price should be. And they are subject to fits of panic, disgust, greed, and infatuation, just like the individuals who participate in them.

The market gods play tricks…they set traps…they toy with us…they seek to ruin us…and they discover exactly the right price—set by willing buyers and sellers—every day.

In financial terms, the market 'clears' when buyers and sellers figure out the price that will get the deal done. Then, they can regret it later.

The price is essential. It is what tells farmers they overplanted or homebuyers that they have waited too long. It's what causes speculators to look for open windows and investors to postpone retirement. It is what tells the producer what he should have produced and the consumer what he wished he could consume. It's what tells you what people *really* want.

Since real wealth can only be measured in terms of what people really want, any distortion of prices is misleading, vain, and potentially impoverishing. Bend prices and you send producers off in the wrong direction, making stuff that people don't really want. Everyone is poorer as a result. Even the smallest amount of central planning, where it disturbs private, individual planning to the slightest effect, reduces the sum of human happiness.

Taxes, tariffs, import restrictions, quotas, subsidies, bailouts, product specifications—every meddle is a fat thumb on the market scales. The price data is corrupted. The producer doesn't know what the consumer wants. The consumers' choices are sub-optimal. The whole economy is hobbled. Everyone gets less of the stuff he really wants and more of the stuff he doesn't.

If you agree with that, guess what…you're going against an entire century of economic theory and practice. The modern economist believes he can improve the way people invest, save, spend and do business. In the United States he has been hard at it—manipulating, interfering, controlling—for a century, at least since the Federal Reserve system was founded in 1913. Is there any evidence that all this sweat and heavy breathing has actually worked? That it has actually improved the way economies function? None that we have seen. But now after 100 years of meddling, economics itself is sinking below the zero barrier, down into dark under world of hormegeddon, where the return on further effort will be starkly, catastrophically negative.