



## **What Is The Future?**

*Stocks have long payback periods and because liquidity doesn't exist for an entire society, stock investors are automatically invested in its health.*

Isaiah Berlin, reportedly the unofficial philosopher of the Obama Administration, was a major writer on modern liberalism. Growing up in Latvia in a lumber merchant family, he had a strong sense of the practicalities. Central to his philosophy is the liberal notion of value pluralism, which is necessary for free markets to exist.

The successor to Locke and Mill, writing against the extremist, pre-totalitarian philosophers such as Marx and Nietzsche, on the left and right, he wrote:

“The history of political thought has, to a large degree, consisted of a duel between...two great rival conceptions of society. On one side stand the advocates of pluralism and variety and an open market for ideas, an order of things that involves clashes and the constant need for conciliation, adjustment, balance, an order that is always in a condition of imperfect equilibrium (our note) which is required to be maintained by conscious effort. On the other side are to be found those who believe that this precarious condition is a form of chronic social and personal disease, since health consists in unity, peace, the elimination of the very possibility of disagreement, the recognition of only one end or set of non-conflicting ends...”<sup>1</sup>

But concerned mainly with the history of political thought, writing and teaching as a professor in Oxford, England, he did not emphasize the cultural and institutional structures necessary to preserve human freedom. Except, in this passage:

“Men will suffer for centuries in societies whose structure is made stable by the accumulation and retention of all necessary power in the hands of some one class. Ferment begins only when this order breaks down for some reason (the Marxist hypothesis of the influence of technological invention is illuminating) and a ‘contradiction’ arises, that is, the development of one factor – say the possession of political authority or control by a ruling group – is no longer united to some other equally

needed attribute, say economic or capacity of administration. Then the equilibrium (our note) of the system is disturbed, and conflicts are set up, with corresponding opportunities to alter the distribution of power for those who seek to upset the status quo.”<sup>2</sup>

It is with this essentially biological description of society that we wish to proceed, for therein lies a viewpoint regarding the increasingly acute contemporary problems of preserving freedom from totalitarianism, dealing with Covid, and climate change. A biological view of society considers both its structure and dynamic change. Without structure, the parts don't fit together and the result of chaos and then totalitarianism; but without change, the organism cannot adapt to the changing environment. Liberal market societies are dynamic because they contain both institutional structure and markets at the (sometimes) bleeding edge of change. Both are necessary; how do they interact over time?

Since the 19<sup>th</sup> century rise of Romanticism, and therefore Nationalism, the individual and the specific histories of peoples have been the most important. This, in reaction to the Enlightenment, where people and societies were considered subject to the same universal laws - such as human rights or class struggle. In modern democracies, there is a continual discussion (some would say struggle) between the specific values of Nationalism and the universal values of Enlightenment human rights. For instance, to be utterly obvious, people belong to the specific families and the societies where they grew up. We grew up in the U.S., being very used to political discussion, and then later became fascinated by free markets and their ties to liberalism.

Daron Acemoglu and James Robinson are, respectively, historical economists at MIT and the University of Chicago. Their book, “The Narrow Corridor (2019),” discusses the narrow path that democracies<sup>3</sup> must tread, achieving at best an imperfect equilibrium between the two opposing concepts of society. It is therefore full of specific historical and cultural detail as well as useful economic generalization, an exception to most social science studies. These are just the references from one chapter. Free democracies, according to the authors, tread a narrow path between the naturally growing absolutism of the state, however organized, and the insecurities and chaos of hunter-gatherer societies. Very relevant to the events of today in the U.S., particularly on the Right, both extremes will result in maladaptation and then very low or absent economic growth.

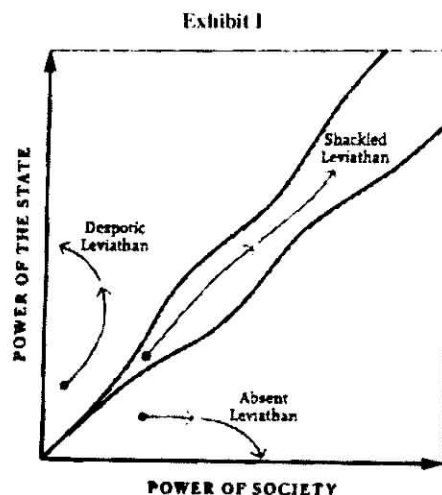
In 1651, the English political philosopher Thomas Hobbes published, “The Leviathan.” A Leviathan, from the Book of Job, is a mythical sea monster:

When it rises up, the mighty are terrified;  
they retreat before its thrashing.  
The sword that reaches it has no effect...  
Iron it treats like straw

and bronze like rotten wood....  
Nothing on earth its equal-  
a creature without fear. <sup>4</sup>

Hobbes wrote at the dawn of the modern age, when political theorists, striving to derive a new, secular basis for society, developed the contract theory. To prevent "Warre," men living in a state of nature, "red in tooth and claw," contracted among themselves to create a sovereign above all, the Leviathan, to keep them safe. The main purposes of the modern state are to provide security, to adjudicate disputes, and to provide for a common life that involves taxes and benefits where economies can flourish. But whereas Hobbes sought to justify only one type of government, to which men must surrender all authority (provided the Leviathan could keep them safe), the fact is that men set up different types of Leviathans because they have different histories. As is obvious, "the end of history" due to globalization did not occur.

As two independent variables, the authors propose The Power of the State and the Power of Society. In free democracies, the two independent variables interact, each checking the other as the capabilities of both increase. If the power is skewed towards the state, the result is despotism. If the power is skewed towards society, the result is absent government. With this simple model, see Exhibit I, the authors are able to describe how societies and states differ throughout the world. With such a model, the catastrophes of Vietnam or Iraq might not have happened.



### The Absent Leviathan

The state of nature is not the "noble savage." "In 1978, the anthropologist Carol Ember systematically documented that there were high rates of warfare in hunter-gatherer societies—a shock to her profession's image of 'peaceful savages.' She found frequent warfare, with a war at least every other year in two-thirds of the societies she studied.

Only 10 percent of them had no warfare. Steven Pinker...compiled evidence from twenty-seven stateless societies studied by anthropologists over the past two hundred years, and estimated a rate of death caused by violence of over 500 per 100,000 people - over 100 times the current homicide rate in the United States, 5 per 100,000, or over 1,000 times that in Norway..."<sup>5</sup>

A modern example of this sort of society is Lebanon, where power is divided among Christians, who hold the presidency; Sunni Muslims, who hold the office of prime minister; and Druze Muslims, who hold the chief of the general staff of the armed forces. Needless to say, nothing gets done by the state; while Hezbollah, a Shia Muslim group, runs amok in the Bekka Valley. "Parliament has not voted on a budget for almost ten years, letting the cabinet write its own.... In 2013, the lawmakers met only twice and passed two laws....(In 2018) Lebanon was facing one of its most existential threats, as one million refugees from the civil war in neighboring Syria...poured into the country." <sup>6</sup> And then there was the 2020 fertilizer explosion in the Port of Beirut that caused 218 deaths and 7000 injuries, the government being unable to dispose of an abandoned ship's cargo.

Obviously, states are necessary.

### The Despotic Leviathan

"The Soviet state was a perfect specimen of the Despotic Leviathan at home in Russia, and acted as the fountainhead of despotic power in Eastern Europe and in the Soviet republics it controlled in Asia." <sup>7</sup> Viewed through this lens, the meaning of the horrific events in the Ukraine, happening according to the whims of an absolute dictator become perfectly clear. According to Vaclav Havel of Czechoslovakia, "Not only is the dictatorship everywhere based on the same principles and structured in the same way...but each country has been completely penetrated by a network of manipulatory instruments controlled by the superpower center and subordinated to its interests." <sup>8</sup>

Preaching class struggle as the key to history, the irascible Karl Marx was succeeded, in practice, by Vladimir Lenin who reestablished the dictatorial state in Russia.

### The Paper Leviathan

We do not discuss the case of the "Paper Leviathan" which occurs when the state is weak and disorganized. This occurs in a large number of countries in the world, but our interest is mainly in the narrow corridor that free democracies must tread.

### The Shackled Leviathan

The authors write, “The outlines of European history, very much like the history of other parts of the world, are heavily shaped by the impact of big shocks but critically, this happens on a canvas drawn by the balance of power between state and society.”<sup>9</sup>

In the early 5<sup>th</sup> century A.D., the centralizing Romans withdrew from Britain. The Frankish German tribes settled in eastern England; bringing along their custom of bottom-up assembly rule that persists to this day. “The early history of the Franks was a struggle to combine the bottom-up political traditions of the Germanic tribes with the state institutions of the Romans....Imposing a stable political hierarchy on Franks was challenging.”<sup>10</sup>

In 1066, William the Conqueror invaded England, imposing the hierarchic feudal system of France. “All land, at least in principle, was owned by the King, who granted it as a fief to his vassals in exchange for ‘council and aid,’ particularly military aid....The influence of assemblies was soon re-created under the requirement to give ‘council and aid.’”<sup>11</sup> As a result, the English king, following the European pattern, was more like a chief justice. To end feud and vendetta between kin, William made responsible the geographical village community – with people taking on craft surnames such as Smith or Baker, leading to the sovereign state.<sup>12</sup>

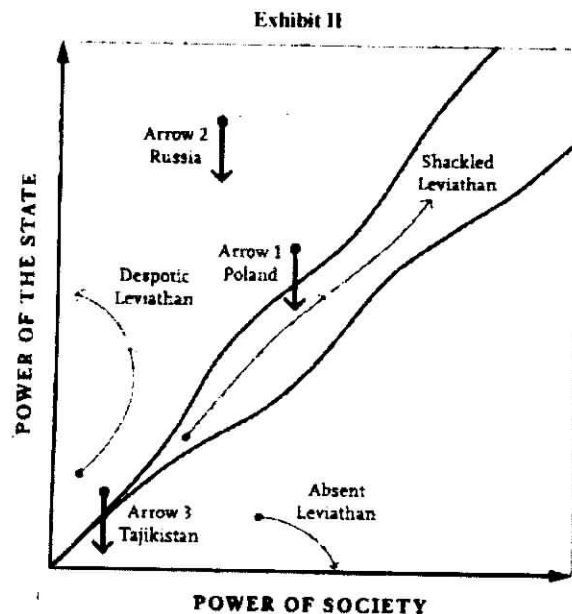
In reaction of society to a steadily strengthening state, and the king’s endless demand for taxation, in 1215 the barons negotiated the Magna Carta that, “became the foundation of England’s institutions.”<sup>13</sup> Paragraph 15 stipulated, “In future we will allow no one to levy an aid (with quaint exceptions) from his free men (the source translation says ‘free tenants’)... and on each of these occasions there should be levied only a reasonable aid.”

<sup>14</sup> The rule of modulated reason has permeated the institutions of Britain and the United States to this day, although clearly the latter now has problems.

In an almost biological sense, free democracy, as Acemoglu and Robinson indicate, exists at the intersection of order and freedom, the narrow corridor. What is clearly destructive to this system is excessive partisanship, an inability to achieve consensus in what James Madison called, “the general good.”<sup>15</sup> The ultimate social value, as other writers have noted about democracies, is trust; the trust that all parties can and will carry out the agreement that has been struck, the deal that all are expected to live up to.

### The Narrowness of the Corridor

A major strength of this model of government and society is its flexibility. It is capable of describing all sorts of societies with different historical experiences. See Exhibit II.



As Hans Kohn (1961) wrote, "The later Russian Empire differed fundamentally from the liberal, tolerant (commercial) British Empire in its tendency to impose uniformity upon its immense domains, to Russify or later to communize them without any freedom of spontaneous development."<sup>16</sup> About modern Russia, Acemoglu and Robinson write. "At the root of the problem was lack of popular mobilization or even independent interests that could stop the unrestrained exercise of power of the state and limit the sort of high-level discretion that Yeltsin enabled. Privatization (in the hands of the oligarchs) and economic reform on their own could not create the broad and legitimate distribution assets that might have formed the economic underpinnings of a Shackled Leviathan. This allowed Putin to reverse the gains of the 1990s and consolidate a new despotism...Russia was too distant from the corridor."<sup>17</sup>

Contrast this with Poland, which began closer to free democracy. "...the mass collectivization of agriculture that Stalin had engineered in Russia and Ukraine never happened in Poland. People were most left with their land; there was some respite, some breathing space for civil society to grow under the shadow of the hammer and sickle. Ironically enough, it was in the Lenin Shipyard in Gdansk that Polish society really got organized. Led by Lech Walesa, an (n.b.) independent trade union, Solidarity emerged in September 1980....By 1992 there were twenty-eight different political parties in the Polish parliament....Moving into the corridor created the conditions for liberty in Poland, which rapidly built a vibrant democracy on the back of its highly mobilized civil society."<sup>18</sup> Free democracy requires a strong civil society; and an effective government.

Societies can also fall off the democratic path. The Weimar Republic in Germany of the 1920s is an example of a deeply polarized civil society and a paralyzed government. Between 1918 and the accession of Hitler to power in 1933, Germany suffered three major catastrophes:

- 1) The defeat of W.W. I that killed or wounded 6.2 million of its men.
- 2) The destruction of its middle classes by hyperinflation.

### 3) The Great Depression that had world-wide consequences.

Those most responsible for the war, Generals Ludendorff and Hindenburg, handed the debacle to the Weimar Republic, which became responsible for its consequences. The Republic, in turn, gridlocked by conflicts between the nostalgic Prussian landed aristocracy<sup>19</sup> and the rising industrial and professional classes finally caused President (the same) Paul von Hindenburg to appoint Hitler as chancellor in 1933. The result was to transform Germany into a totalitarian state where there were only subjects and not citizens.

Is the United States in a similar danger? Consider that 66% of Republicans believe that the 2020 presidential election was stolen, a deadlocked Congress, and the violence of January 6<sup>th</sup>. The authors write, “A population failing to benefit from economic changes, feeling that the elites are getting the upper hand, and losing its trust in institutions. A struggle between different parties becoming increasingly polarized and zero-sum. Institutions failing to resolve and mediate conflicts....A strongman claiming to stand for the people against the elites, and asking for the institutional checks to be relaxed so that he can serve the people better. Sound familiar?

“It could be Turkey...France...Or it could be Donald J. Trump.

“But it couldn’t happen in the United States, could it? A country with a wonderful constitution that balances elite and non-elite power and creates layers of checks against overeager politicians? A political system that epitomizes the separation of powers...A cherished legal system...And then again. It couldn’t have happened in the Weimar Republic either, could it?”<sup>19a</sup>

This book also illustrates an essential point. The experimental sciences are not the same as mathematics. Mathematics is derivative from first premises. It is therefore possible to prove a subsequent assertion, with certain knowledge. In contrast, the experimental sciences, and certainly the social sciences, are bottom-up. They show, according to some statistical distribution - often bell-shaped Gaussian for the natural world- that the experimental result found has a vanishingly small probability of occurring by chance, say 5%. Similarly arguing, Acemoglu and Robinson have shown that free democracy is very likely not possible unless the preconditions of structural order and social freedom are met. They have necessarily traded essential historical detail, say the rise of Hitler, for a generality that applies both to the agricultural *Junker* land-owning class of the Weimar Republic as well as to parts of Latin America.

Which leads us to the financial markets. Value investing is experimental rather than derivative (no pun intended). It is less concerned with how the markets have gotten to a certain level; but given simple but likely valid assumptions about the far future, an

investment will be proven to be “value” if bought at the right price. This means that all serious investors have an automatic stake in the future of their societies.

What is the future? The future depends upon the capabilities of the state and abilities of society to influence it. The challenges facing the future are essentially biological. The biologist Charles Darwin published, “On The Origin of Species (1859),” in which he argued that species resulted from the natural selection by the environment. The main point of this study was not, as popularly held, “the survival of the fittest” individual; but the adaption of an entire species to its changing environment. This is a major argument for societal diversity, because the natural environment is changing quite rapidly and many different and complex responses will be necessary to cope.

### The Covid Epidemic

The Johns Hopkins Covid data is surprising.<sup>20</sup> Assuming the data is at least ordinally correct, the U.S. rate of cumulative Covid deaths (337/100,000 population) is the second highest in the world, after Peru. This is a serious indictment of both the capabilities of the state and also the abilities of people to adapt. Under the Trump administration, the president was in a leadership role for government and society saying, “It’s going to disappear.”<sup>21</sup> In partnership with private industry, the National Institutes of Health, under doctors Francis Collins and Anthony Fauci, was capable of getting a highly effective vaccine produced in quantity; but the U.S. government was initially not successful in implementing effective public health measures and getting the vaccine widely distributed. The result is the above, and there will be other epidemics.

### Rebuilding the Domestic Economy

In the 1990s, the U.S. made the decision to opt for totally free markets. It therefore made the decision to choose low prices, brought about by economic efficiency, for domestic employment. In economic theory, domestic unemployment should not happen because the model assumes the perfect mobility of capital and labor. The first assumption is utterly true, now requiring just a flick of a computer mouse, but not the second.

According to Rana Farooq in “Homecoming (2022),” “...the United States had left the era of Ricardian fantasy, in which countries happily and successfully pursue competitive advantage without any of the messy subversions of the real (our emphasis) political economy.”<sup>22</sup> “While the coasts prosper, the Midwest, Northeast, and central South suffer from rising unemployment and falling incomes...a dream that could be dreamed in Austin (land of the University of Texas and Silicon Valley is different)...from one that could be dreamed in, say, Western Pennsylvania (in the Mahoning Valley).... ‘The Economics 101 approach, which is place-agnostic, has clearly failed.’”<sup>23</sup>

The result is great economic disparity. "...lower-growth areas and rural counties where some 77 million people live have had 'flat or falling employment growth,' ...Those left behind are angry and vulnerable to demagogues. Is it any wonder that the least urbanized counties in the United States voted for Trump by a margin of 35 percentage points, up from 32 points in 2016?"<sup>24</sup> Trump's unfortunate tendency is to flail around and then to blame other people, rather than the more abstract economic system. Manufacturing is the opposite of this.

The steady export of U.S. jobs and capabilities has been occurring for many years, and it will take many years to correct, to reshore important manufacturing. In his 2023 State of the Union Address, President Biden dedicated his administration to rebuilding the democratically necessary middle class and reviving the main U.S. strength, its foreign alliances.

- 1) The Bipartisan Infrastructure Law has funded over 20,000 projects that will put hundreds of thousands of people to work rebuilding our highways, bridges, railroads..and high-speed internet....
- 2) The Bipartisan Chips and Sciences Act has encouraged companies to announce investments of more than \$300 billion in the last two years, to create jobs earning \$130,000 a year, many that don't require a college degree. Jobs where people don't have to leave home in search of opportunity.
- 3) The U.S. would not have been able to defend democracy in Europe without its rebuilt NATO and global alliances.

The presidency takes real skill.

### Global Warming

The Intergovernmental Panel on Climate Change says that earth's average temperature cannot increase beyond 1.5° C (currently around 1.2° C) above the preindustrial level to maintain life as we know it. This limit will result from an increase in average atmospheric CO<sub>2</sub> from its current level of 415 ppm to 507 ppm.

But a simple global average does not capture specific current problems, because the effects of global warming are not evenly distributed; to take current U.S. examples:

- A large hurricane levels the west coast of Florida
- Multiple large tornadoes devastate the South and Midwest
- Water rationing in the West because its largest reservoirs are at 1/3 capacity

Moreover, global warming contains major tipping points which will have irreversible and non-linear effects upon the climate. According to the *Wikipedia*, there are nine major

global tipping points. A 11/11/21 Columbia Climate School report mentions the top three:

1) The West Antarctic Ice Sheet (WAIS)

The 11/22 issue of *Scientific American* contains this title. “Meltdown, New Evidence That Antarctica’s Ice Is Collapsing Faster Than Expected.” On the western coast of Antarctica, the Thwaites Glacier, about the size of Nebraska, can raise the global sea level by about two feet. “The ground underneath the glacier is a relentless slope that drops deeper as it moves inland from the outer, seaward edge, allowing warm ocean water to slide under the glacier, melting it from below. As the ice thins, losing weight, it is also expected to lift off the (terrestrial) bed and float on the intruding warm, dense water (raising the sea level), allowing the water to penetrate even further-eventually reaching the 2,500 meter trench at the heart of the continent. If that happens, ‘you’re going to unload the WAIS...” That contains enough ice to raise sea levels...by more than ten feet.” We quote this at length to illustrate that Mother Nature is extremely complicated, and that people had better now take her into account.

2) The Greenland Ice Sheet

“The Greenland ice sheet contains enough water to raise global sea levels by over 20 feet and its melting is accelerating. From 1992 to 2018, it lost close to four trillion tons of ice. While its disintegration is not likely to be abrupt, taking over centuries, there could come a point beyond which its eventual collapse will be irreversible for millennia.”

3) Amazon Rainforest

“The Amazon rainforest...stores 200 billion tons of carbon-equal to about five years of global carbon emissions from the burning of fossil fuels-and is home to millions of species of plants and wildlife....Because of logging ranching, mining, agriculture, and fires, the Amazon has lost about 17 percent of its tree cover and at the current rate of deforestation, could reach a loss of 27 percent by 2030.

If you consider the very complex challenges the U.S. and the world face in the future: coping with climate change, rebuilding the domestic economy, and navigating foreign policy; the country will require both a proficient government, led by a capable president, and a strong society capable of making demands upon the first two.

Both will probably require a change in the societal standards that describe modernity. The 19<sup>th</sup> century put the West at a major transition, primarily away from the older traditions, and towards a new one based upon both self-interest and will. The will drove the construction of gigantic steamships crossing the Atlantic, the economic transformation and exploitation (to make a long story short) of the entire Americas and Asia, and created the social instabilities that resulted in two World Wars and many local

revolutions. The predominant image was that of an open world and boundless opportunities.

Since the world has now become genuinely multipolar (the U.S. accounts now for about 24% of the world's GDP), the emphasis must now be on flexibility and adaptability, within limits; including as an interested party, Mother Nature herself. To keep free democracies along the narrow path between structure and freedom, requires a certain perception. The ancient Greeks had a word for it; *phronesis*, a practical wisdom that recognizes that some characteristics of a unique situation (including people, policy, and ethics) are more important than others. These are the arguments for diversity, diversification, approximate equality and respect.

According to Johan Rockström, professor of environmental science at the University of Stockholm, the years of this decade, 2020-2030, will be decisive for humanity's future. The payback period of a typical stock is 36+ years, well beyond the decisive years for humanity's future.

**Vote, organize, and build!**