

Knowing What to Know

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I know what I know, and you know what you know, but do we really know what we need to know? What is it exactly that we need to know? What knowledge should we have to make the most prudent and pragmatic decisions?

Knowledge...hmmm...what is it? Is it knowing history? Is it knowing what to think? Is it knowing how to act in certain situations? According to the *Oxford English Dictionary*, knowledge is “the expertise and skills acquired by a person through experience or education.” So it seems there are two ways we gain knowledge, one by our day-to-day *experience* and the other by our formal *education*.

Intelligence, it would seem, is the thoughtful application of knowledge in decision-making. But does knowledge necessarily equate to intelligence? It seems that with proper knowledge, we should know how to act in various situations. Why then is this so often not the case?

Shouldn't it have been known that building a nuclear facility on an earthquake vulnerable coast could have ended in disaster? And why wasn't Japan prepared for that obvious possibility? Why do people live in areas where the risk of tsunamis is high and life threatening?

We can ask the same sorts of questions about California, which we know will eventually be hit by a similar calamity. Even without considering nuclear facilities, that looming shift of the Andreas Fault would likely end in immense destruction to property and lives.

We know from our formal education that bad things can happen, yet we still put ourselves at risk. So then, educational knowledge alone obviously doesn't equate to intelligence. Why do we test fate when we already have history, science, and solid knowledge that tells us disaster is inevitable?

A good book written several years ago called *Emotional Intelligence* suggested that what we know isn't as important as *feeling* our way through the decision making process. According to the author, educational knowledge is important but may take a back seat to our emotional skills. It would seem those emotional skills develop through our personal experience and self-awareness. And come decision-making time, we tend to put experience knowledge above educational knowledge.

Another excellent book called *The Fourth Turning* suggests we go through a recurring sociological cycle every 80 to 100 years. According to this book, we tend to make the same mistakes over and over, not because we haven't learned from history, but because we mostly make our decisions based on personal experience. If we haven't personally experienced a tsunami or a nuclear accident, then we don't fully consider those possibilities in our decision making process.

Our recent economic calamity and current struggle to move past it seems to validate the notion that experience knowledge trumps educational knowledge in our decision-making. History should have taught us that loose financial regulation helped cause the crash of 1929, yet we happily tore down Glass-Steagall because it seemed outdated. No one alive and in a position of influence had experienced the 1920s or the Great Depression, so we lacked that personal experience, that emotional intelligence.

Armchair Economic Perspective
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We became convinced that the Efficient Market Hypothesis would ensure a steady economic environment. But it didn't. A poorly regulated financial market almost destroyed the global economy. The knowledge we should have learned from history did not apply because it was not experienced personally. So we made the same kind of mistake all over again.

Even though we seem to forget how to protect ourselves from calamity, as time puts great distance between history and our personal experiences, when calamity does happen, we immediately look to history for a resolution. This is exactly what we have done with our recent economic situation. We forgot the lessons of the 1920s, but then we hauled out Keynesian theory to "shock and awe" our economy with so much stimulus that some kind of recovery was inevitable.

How do we know this strategy is sound? We don't because we don't have the personal experience with a similar situation. But we're certainly hopeful this plan works. So far some sort of stability seems to have been reached. But then why do we still seem to feel so insecure? Why do we still seem on the edge of another collapse?

Policy response to the initial 1929 crash also led to a quick return of GDP and stock market growth. But just three years later in 1932, we crashed again. This time we stayed down over a decade, until WWII jump-started our production economy. Then for several decades, the production economy, along with favorable demographics, inspired a rising-tide-lifts-all-ships economy.

Today that production economy seems to be out of tune. Technology has allowed production jobs to be outsourced and replaced by improved systems and mechanized labor. So for the last decade, we've been scrambling to hold up our economy with massive government stimulus in the form of loose financial regulation and loose monetary and fiscal policy. We've even gone against the rule of law and changed accounting rules to ensure economic sustainability.

Why do we seem to be scrambling to keep everything afloat? Why does today's economy and society seem so fragile? Might it be because we've entered a new economic era? Has technology so changed the world that we're fighting an economic battle with strategy and weapons from a period that no longer applies? If so, then might we just be perpetuating the problem, if not making it worse? Are not the too big to fail banks now only bigger? Where is the logic in that?

All this insecurity, reactionary policy and feelings of fragility have the Armchair wondering: What do we need to know? What knowledge today could guide decisions that can ease this sense of insecurity? And how then do we apply that knowledge pragmatically? It seems we might be better served to keep in mind that our personal history is deficient and tends to exclude all those things that might have happened – those enlightening clues from the past – but just not to us personally. So maybe we need to be careful assuming what we know is what we really need to know.



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