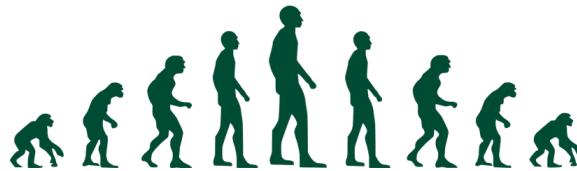


Reptilian Thinking

Newsletter, November 2021



"Things that have never happened before happen all the time"
Scott Sagan (1955 -) Political Science professor at Stanford University

Here we are, in the final phases of a global pandemic that has had an effect on almost every aspect of our lives, causing social, political and economic upheavals that are likely to remain with us for the foreseeable future. This "new normal" environment into which we are gradually settling is in many ways the consequence of our reckless selves, charging blindly ahead and without concern to the many ramifications of our actions, as long as the dangers they pose are not immediate. If our infinite intelligence and ingenuity flowing from our "neocortex" brain have given us the power to dominate and rule above all else, our "reptilian" minds are sabotaging almost all those gains and are behind most of the misery we see around us.

It is here that our instincts of greed, fear and everything in between originate: those very attributes that have allowed us to survive as a species for so long, but that have been rendered increasingly redundant with the emergence later in our evolution timeline of the cognitively driven "neocortex" region of the brain. By diminishing or eliminating most of the dangers that have threatened our existence in the past, we have created a seemingly aseptitized environment, one in which our survivorship instincts have lost most of their "raison d'être". If our reptilian minds are causing major headaches in the present, it is because they have the power to not only override, but also temporarily shut down those higher order thought processes of the brain.

The irony in all this is that those same "crude" instincts that have helped us survive through the ages now seem to be working against us, an impediment threatening our very existence by interfering with our decision-making process in ways that we hadn't really thought of. Given that our world is governed by mostly random events¹ and considering our innate need to create a sense of order out of all the chaos, so that we can better dominate our surroundings, we started looking at those events in terms of probabilities. Doing so gave us the illusion of control, because the way we devised them had been flawed. If probability distributions are constructed by observing the past and if we know through experience that outside a few exceptions most events don't follow specific patterns that are cast in stone, we are only fooling ourselves.

¹ Mostly because some events, such as the cycles between day and night have a predictability of almost 100%. The certainty can never be 100%, because nobody can rule out a day when the sun will fail to rise.

Matters only get worse when we realize that we don't really reason in terms of "probabilities of occurrence", especially when the likelihood of a specific event gravitates towards the extremes. If something is very unlikely to happen, we tend to attach a zero probability of occurrence to it in our minds, which is why we end up being unprepared for it. Same goes for events that are highly likely to occur, we get totally surprised when the outcome ends up being different to our expectations. Consider the pandemic before it became one. Who would have thought that we would live to see entire economies at an almost complete standstill, let alone lockdowns that would force entire populations into confined spaces over extended periods?

What about that a sub-prime market gone haywire would bring the entire global financial system to its knees and last many years, that the assassination of Archduke Franz Ferdinand² would mark the beginning of a World War causing 68 million casualties, or that negative interest rates would spread across the globe and remain like that for almost a decade? Ask anyone just before any such event and the answer that you are likely to get is that such things can never happen. But if you consider that over any given year, there are many such events with significant consequences on our lives with low probabilities of occurrence taking place, the risk of one or more of them materializing suddenly becomes much greater.

So, if most of our actions are often directed by our emotions of "fear and greed" and our rational decision-making process are frequently being hijacked by them, the challenges we face in the present are not all that surprising. We are a species that doesn't like to act until it is almost too late to do so. Not only do we turn a blind eye to the consequential effects of our actions until they become major threats, but we are also almost always caught by surprise when they happen. If we were able to devise ways of better managing and confining our reptilian minds, wouldn't that help avert or diminish the type of risks that threaten our very existence? Artificial intelligence may hold the key here: it is capable of taking decisions and making choices that are not tainted by emotions. The real challenge will be to build systems that are untainted by our biases³. Can we do that?

Where Do We Go From Here?

As inflationary pressures linger on, central bank strategy is likely to be increasingly focused on ensuring that its effects don't trickle into expectations, the so-called un-anchoring of inflation expectations by businesses and households, which become much more challenging to reverse once they have taken hold. This is also why the Fed, expressing growing concern, is hinting towards tapering that could happen before the year is over. The economies across the globe have been emitting mixed signals on the inflation front, with greater price pressures on goods than services. With a recovery in full swing as the pandemic threats continue to subside, the comparatively tepid demand for services is a puzzling occurrence. It could be that the pandemic has led to a shift in consumption behavior, in which case it is the "stickiness" of this change that businesses and policymakers should be worrying about.

A crisis in global supply chains has highlighted the tight integration between economies, brought about by the globalization drive of the last couple of decades. It has been a wakeup call for many countries that were not all that aware of the extent to which their economies were dependent on imports, some of which are deemed to be of strategic importance. Huge windfalls from the globalization drive have led to complacency, creating vulnerabilities that did not exist before and which governments are now trying to address. The semiconductor shortages which are unlikely to be resolved anytime soon, are creating headwinds for a whole range of industries. Car manufacturers, which carry a significant weight in the U.S. and European economies in particular, have been especially affected by this, which is why the recovery in the third quarter appears to be losing steam.

On the pandemic front, the latest data suggest that the massive vaccination efforts undertaken since the start of the year, combined with the continued enforcement of certain constraints and restrictions seem to be paying off to an extent

² <https://www.history.com/news/did-franz-ferdinands-assassination-cause-world-war-1>

³ <https://www.theguardian.com/inequality/2017/aug/08/rise-of-the-racist-robots-how-ai-is-learning-all-our-worst-impulses>

where we are unlikely to see a repeat of the drastic lockdowns. If we can rejoice on having gained the upper hand in our confrontation with the pandemic, the same can't be said about the world that is emerging in its wake. The political and economic clash between the U.S. and China initiated by the Trump presidency doesn't show any signs of subsiding with the new administration and has a worryingly cold war feel to it. The major powers are locked in an increasingly overt race for technological dominion in a variety of strategic fields that include artificial intelligence, robotics, biotechnology and the drive towards renewables. These could lead to military confrontations down the road.

China's main challenge in coming years is going to be to successfully steer a delicate transition towards achieving greater autonomy in light of an economy that is rapidly maturing. This is a tall order, the Evergrande crisis and the recent whole region electricity blackouts are cracks in the system that appear to be relatively contained for the time being, but could very easily slip out of control if merged with other such turbulences. The blackouts are themselves the outcome of a combination between the trade wars, the pandemic, overreliance on coal and climate change effects⁴. These are the type of examples of "low probability" events that tend to be dismissed from a threat perspective, because they are typically perceived in a vacuum.

The uncertainties and turbulences of late are being brushed aside by the stock markets that continue to break new records, riding on the tailwinds of major milestones such as the recent introduction of a bitcoin futures-based ETF or Tesla's \$1 trillion market cap breakthrough. Yes, it's all mostly sentiment driven as it has always been, our reptilian minds can't have it any other way. We also know well that sentiment is the instigator of bubbles, but that's not such a bad thing as long as it doesn't reach extremes. It's a bit like inflation, desirable in moderation to grease the cogs of the economy, but also very damaging and difficult to fix at the extremes.

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⁴ <https://thediplomat.com/2021/09/coal-shortages-force-blackouts-across-china/>