Missive

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Chronological Snobbery

C.S. Lewis coined the term 'chronological snobbery'. According to Lewis, the definition of chronological snobbery is "the uncritical acceptance of the intellectual climate of our own age and the assumption that whatever has gone out of date is on that count discredited." In our minds, it is how humans undercut the wisdom of a prior time by assuming that we are so much more advanced in our current day.

These snobbish ideas promulgate until some type of militaristic, economic or social two-by-four hits society with a dose of old-school reality. Then, everyone recognizes their cognitive shortcomings, like a schoolboy disciplined by their principal, vowing never to be so blind again. This blindness is a natural progression of humans. We believe progress gets us beyond the foolishness of the past, but in reality, we make the same mistakes even though the chip stack of civilization gets higher. We will look at other eras of chronological snobbery like today.

2006 - We are Past Recessions

In the mid-2000s, economists around the world began to believe that we possibly were past recessions. The global economy had grown a lot from the productivity gains due to the growth of desktop software in businesses. When the dot-com bust took place, stocks went down. In 2001, following the 9/11 terrorist attacks, the US Federal Reserve lowered rates to provide liquidity to the economy and fight the terrorists. The interest rates fanned a pickup in the housing markets to a level never seen before in mortgage financing. The economy and eventually the stock market responded. More than anything, housing boomed in the US and other parts of the world.

In central bank circles, there was the belief we were possibly past recessions in the future. The primary idea behind this was extrapolating out the recent events. We didn't have a deep recession from a downturn in the stock market. In a 2004 piece titled "The Great Moderation," former Federal Reserve Chairman Ben Bernanke points to three primary reasons for macroeconomic volatility (read recessions) declining. He says three reasons are "structural change, improved macroeconomic policies, and good luck."[1] He goes on to say in that piece:

> *My view is that improvements in monetary policy, though certainly not the only factor, have probably been an important source of the Great Moderation. In particular, I am not convinced that the decline in macroeconomic volatility of the past two decades was primarily the result of good luck, as some have argued, though I am sure good luck had its part to play as well.*[2]

The big idea was that policymakers had just gotten better. Within four years, this chronological snobbery would have us staring into the greatest credit crisis since the great depression; rivaling panics and depressions of the 19th century. Does this sound modern?

1929 – Permanently Higher

One of the most famous economists was Yale's Irving Fisher. Fisher is most noted for saying that, "Stock prices have reached what looks like a permanently high plateau."[3] The enthusiasm at the time had never been seen in American society. The 19th century didn't have a developed stock market like the one seen in the 1920s. In the era prior to the 1920s, bonds and preferred stock dominated the investment markets, with bankers like the famed James Pierpont Morgan thumbing their noses at common stock investing. The newfound belief in the cult of equity investing caused Fisher to make his historically poorly timed statement. These feelings around society build the arrogance of these gestalts that cause the chronological snobbery of the time.

As we all know, common stocks, instead, went to a permanently lower plateau of valuation as we crept through the Great Depression and wouldn't see enthusiasm in investment markets until the 1960s, more than 30 years later.

Today – Inflation's Bagged Again

One of the finest examples of chronological snobbery in today's investment markets is the belief that inflation is under control, because like in the mid-2000s, we have better financial tools. The rate rises from team transitory were large and had never been seen at that pace before. The Fed would have been fully expecting that this tight of monetary pressure would have caused problems in the real economy. Sadly, the economists have been wrong about the effect on the economy. We now know their policies directly caused a damaging blow to the bond market and a run on banks.

The Federal Reserve is fighting a post-pandemic fiscal problem of too much money, from both Republican and Democratic administrations, seeking too few goods. Further, we told Americans that if you have fewer children, you'll be wealthier. They listened and haven't been able to find the courage to have children like in the past or are too foolish to do so. Which of those is right? We don't know. Regardless, Americans have responded to the recommendations for fewer children. This worked until boomers left the workforce, causing pressures in the labor market to find workers that used to be available. This is a structural problem, much like the ones Bernanke referred to in 2004.

[1] https://www.federalreserve.gov/boarddocs/speeches/2004/20040220/
[2] https://www.federalreserve.gov/boarddocs/speeches/2004/20040220/
[3] https://time.com/3207128/stock-market-high-1929/

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Further, the retiring boomers are causing a jump in Federal spending. About 1% of GDP growth next year alone will be the rise in social security payments and government healthcare spending. Will a declining labor force and continued government largesse cause inflation trouble? The economists believe inflation is in the bag. Do we know that the Fed's recent tight monetary policies were the tools that lowered inflation? We just don't know. All we know is that near-term pressures have abated, but then again, so did oil and other pandemic-oriented pressures. While we hear no one peddling the good luck theory on the Fed's behalf in fighting inflation, it makes us think it is right as the structural issues still sit out there.

This all comes to face policy makers when they have one other out-of-model issue staring at them in the papers and in political debates every day: wars. The wars in Israel and Ukraine present them with things that are tough to model and predict. No one would have predicted those three years ago. It leaves us looking back at other periods of war to understand what wisdom we can gain. How can we be having such neophyte issues like this in our modern day? We seek humility like Solomon did when he said, "There is nothing new under the sun." Chronological snobbery doesn't allow for this. To quote Niall Ferguson:

> *A reasonable hypothesis is that the US today is dangerously close to the situation of the interwar British Empire, above all because its electorate and elite are no longer willing to bear the costs of deterrence. This raises the prospect of a confrontation (like those Britain experienced in 1914 and 1939) that will be much costlier than deterrence would have been, in which even a victorious outcome would leave the country greatly weakened.*

Ferguson's read is one of far less hubris. One that says America is running the risk that Britain ran between World War I and World War II when it no longer led. Remember that, like Putin, the chronological snobbery of the 1930s said that Hitler would never go to war and ruin the economic gains of Europe. Neville Chamberlain lost his job as Prime Minister and almost a war with that arrogance. We must fight the arrogance of our time and think of the less perceived outcomes for making money by investing in common stock markets. Markets are priced for supposed knowns. Investors can be rewarded or punished for the unknowns. Chronological snobbery never goes unpunished.

Fear stock market failure,

Cole Smead, CFA
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