

Fathom book club: Copeland, Kahneman and Rozelle

18 May 2022

Ellie Hassell



Generally, Fathom's research notes aim to share our current findings for you to read. This time, however, we thought we'd mix things up – sharing our thoughts about our own reading.

Since Fathom held its first book club meeting a few months ago, a range of books have been in the limelight, prompting vigorous debate about the causes of war, China's ageing demographics and the fallibility of human judgement.



Economic Interdependence and War - Dale Copeland

Are politicians rational? Traditional theories about the causes of war — such as the Thucydides Trap, neoliberalism and realism — often fail to explain abrupt changes in relations between global superpowers. Dale Copeland argues that expectations of the future (which can change) are the element they fail to consider. Copeland attempts to bring rational expectations to the field of political economy, through a series of fascinating in-depth case studies. What the book lacks, however, is a description of how expectations are formed, and how they can be tracked in real time. Enter Fathom... (Reviewed by Andrew Harris, Deputy Chief Economist)

Noise - Daniel Kahneman, Olivier Sibony and Cass R. Sunstein

Daniel Kahneman's latest challenge to traditional ways of thinking about economics is a convincing assault on how 'noise' can affect judgements: in law courts, in hiring, in setting corporate strategy, in estimating econometric models and allocating asset portfolios. He shows how noise leads to worse judgements in every case; and develops processes that can reduce noise, essentially by reducing the role of judgement. Kahneman would like to remove human judgement from all these processes, and replace it with algorithms that do not feel grouchy when they haven't had enough coffee and are not affected by the prevailing temperature or the itchiness of their clothes. The model of myself that Kahneman suggests I build to replace me in Fathom's quarterly forecast process would unhitch our forecast from the consensus, and shift it towards our strongest conviction. The tricky bit is algorithmically identifying the strongest conviction: it's an art more than a science, and I would not know how to codify it.

But I have bigger issues than that with Kahneman's suggestions. Thinking, for example, about Fathom's corporate strategy, if I were to remove myself from the process of designing that strategy and replace myself with an algo, I would lose all the human interaction that for me is nine tenths of the point.

Continued



Maximising profits for its shareholders is one of Fathom's objectives, but it's pretty low down the list. Fundamentally, I am in this business because I love working with people, Fathom people. I wouldn't want to replace that with algos, not for anything. Would you? (Reviewed by Erik Britton, Managing Director/CEO)

Invisible China - Scott Rozelle and Natalie Hell

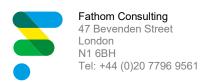
Rozelle's *Invisible China* describes the absence of the young and able-bodied in China's rural villages, stating that "as of the mid-2000s there was simply no one left". But according to his largely qualitative evidence, that all changed in 2016 when rapid rises in unskilled wages began to bite, resulting in layoffs and migrants returning to their villages. While it is true that China's manufacturing wages rose rapidly to 2016, Fathom's research has found little quantitative evidence to support his broader thesis. But a key takeaway, and one with which I agree, is his description of China's political stability being built on two pillars – good economic growth and nationalism. With growth waning (a consequence of an ageing population, diminishing surplus labour, and the neglect of health and education for the rural population), China will lean more heavily on its remaining pillar – nationalism – just as we have seen! (Reviewed by Joanna Davies, Head of China Economics)

COMING UP: next time in Fathom's book club we will be reading more about algorithms, and also AI.

Further reading

China is not about to drive up global inflation

Monthly round-up: China in a global context





This newsletter is a confidential, copyright protected communication intended only for the person to whom it was originally sent. If received in error, please notify the sender and delete immediately. Its intended recipients may not make copies of this newsletter, or distribute it to third parties, without the written consent of Fathom Consulting.

Fathom Consulting is a trading name of Fathom Financial Consulting Limited, a company registered in England & Wales under the Companies Act, company number 04942817, © 2022

Regulatory Disclaimer

FFC LIMITED and all of its affiliates (henceforth FFC) do not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor do they provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. FFC is not regulated by the SEC or by the FCA or by any other regulatory body.

This research report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nonetheless, FFC has an internal policy that prohibits "front-running" and that is designed to minimize the risk of receiving or misusing confidential or potentially material non-public information.

The views and conclusions expressed here may be changed without notice. FFC, its partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. This report may not be copied, redistributed or reproduced in part or whole without FFC's express permission.

Information contained in this report or relied upon in its construction may previously have been disclosed under a consulting agreement with one or more clients. The prices of securities referred to in the report may rise or fall and past performance and forecasts should not be treated as a reliable indicator of future performance or results. This report is not directed to you if FFC is barred from doing business in your jurisdiction. Nor is it an offer or solicitation to buy or sell securities.

Analyst Certification

I Ellie Hassell, the lead analyst, certify that the views expressed herein are mine and are clear, fair and not misleading at the time of publication. They have not been influenced by any relationship, either a personal relationship of mine or a relationship of the firm, to any entity described or referred to herein nor to any client of FFC nor has any inducement been received in relation to those views.

I further certify that in the preparation and publication of this report I have at all times followed all relevant FFC compliance protocols including those reasonably seeking to prevent the receipt or misuse of material non-public information.