

# Fathom book club: Copeland, Kahneman and Rozelle

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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.





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](#)



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