

Are We There Yet?



by Fernando Lanzer Pereira de Souza

When my twins were seven we used to take them on a long drive (770 km) to spend a couple of weeks at the beach. By the time we did this three times, they knew what to expect (a long, boring drive), yet they still asked, after just 70 km of driving: “Are we there yet?”.

Throughout the current economic crisis, I’ve come under the impression that the media has the same mental age as my twins had when they were seven... Although, from the very beginning, there were several news items announcing that “we are going into a recession, and it’s going to be a long one”, still, every other day I read about people saying that there are “signs of recovery” and that “the worst is behind us” (which means we are going to see it getting better from now on).

Forget it. Get real. The global economy doesn’t turn on a dime. Not even the American economy is able to do that, although apparently some people believe it can. There seems to be a childish wishful thinking behind this, a desperate yearning to believe that everything that has gone wrong will suddenly disappear in a puff of smoke, like magic. If only!

I think it was in “MAD” magazine that I once read that “Of course psychoanalysis takes years until you get better: think how long it took you to get so screwed up!”. The same reasoning applies. The Dow Jones index peaked in October 2007, a year and a half ago. It bottomed in April 2009, at 50% of what it was. I don’t see why it would not take at least another 18 months to be back where it was (that means October 2010). Historically, it has risen to previous levels at least twice as slowly on the way up, comparing to how fast it came down. This means April 2012. Now there’s a realistic estimate for you. It might take even more, but to expect full recovery before April 2012 seems to be just wishful thinking, an emotional response, rather than rational analysis.

I met a consultant in Peru last year who said that “Economics is a branch of Psychology”. At first I thought he was exaggerating, but I see evidence that he was absolutely right. The idea that the economy is rational, or that people are rational, is an illusion which I find, to my surprise, some senior people are still clinging to. Their attitude is so infantile that it actually proves the opposing point: that people behave moved by emotions more than by reason. That includes people’s “economic” decisions. Professors at Harvard Business School and senile (sorry, I mean senior) editors at “The Economist” should take note. See also “Descartes’ Error”, by Damasio, “Animal Spirits: How Human Psychology Drives the Economy”, by Akerlof & Shiller, and “Engaging Leadership, by Parker & Marlier.

The truth is that emotions drive every single decision we make. The “rational” decision is a myth. People cling to that myth because they have difficulty coping with and controlling their own emotions. A purely “rational” world has the appeal of appearing to be more predictable, controllable and safer. The irony is that this is a totally

infantile, at best romantic, point of view... Behind every action we undertake, no matter how simple (like, for instance, raising your hand) there is an emotional will to undertake that action.

Every choice implies emotional consequences. Every “rational” analysis brings with it the emotional consequences attached to the available options. We would do better to try to research and understand emotions better, rather than to underestimate their relevance or pretend that there are situations in which human action is devoid of emotion.

People who are afraid of their own emotions (and of the emotions of others) tend to have difficulty in making decisions (choices) of all kinds. They use excessive rationality as a defense mechanism against being in touch with emotions. They create a fantasy world of pure rationality. They join NESAs (NERds Society of America).

Fear (an emotion) and anxiety (another one) drive people to wish for a quick solution to their problems, including a quick solution to their economic woes. In this case, the illusion will lead to frustration, since economic recovery just does not work that quickly. Why? Because in a recession people become more afraid, more averse to risk, less willing to invest, less willing to spend. This hurts economic activity, which only gets worse. Fear of the recession becomes a self-fulfilling prophecy, as it deepens and prolongs the recession.

Recovery happens when more and more people become less afraid and more willing to invest in their own businesses, when more people choose a constructive attitude rather than a defensive one. This takes time. Fear usually comes very fast into our consciousness. Losing that fear usually takes much longer than it took to become afraid.

“We have nothing to fear but fear itself” were Roosevelt’s words about the Great Depression in the thirties. The difficulty is that reasoning alone is not necessarily enough to dissipate fear. Inspiring words are helpful, but inspiring actions will be even more effective. When people see others making money and being successful, that will do more to dissipate fear than any Obama or Bernanke speech. The media could help, by publishing more stories about the people who are making it, rather than broadcasting from “Gloom Central” all the time, or stating that the recession will be over next Monday.

The problem here is that fear sells more newspapers than hope does. So don’t hold your breath. Be patient. This is going to take time. We’ve barely done 70 km and we still have 700 km more to go before we get there.

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