

# Thoughts on Coming Apart and the Coming Great Reset



**Turning and turning in the widening gyre  
The falcon cannot hear the falconer**

**Kit Webster**

**September 27, 2024**

**Sandpiles**

## Themes and Theses - Why I'm Contemplating Out Loud

(Initially formulated in the early 90s, following decades of reading history, philosophy, psychology and a lot of contemplation, particularly on the subject of cycles. In the end, this is a relatively straightforward story about human nature and of history rhyming.)

The US will enter a period of crisis in the early 2000s. In the late 90s, I took up Strauss' and Howe's terminology of the Fourth Turning (without incorporating their generations paradigm) and agreed with Howe that the end stage of the crisis began with the Great Financial Crisis and would last into the early 2030s. We are not yet to the middle of the end stage of the crisis.

The crisis will be serious and could be existential.

Internal strife will increase, up to and including secession and civil war.

International conflicts will increase as the vacuum created by the weakening of the US is filled by other players.

There will be many threads to the crisis, but the primary thread will be debt, deficits and entitlements. Other factors include, eg, demographics, a loss of meaning and myth and a loss of self-discipline.

Politics will move leftward as citizens look for some refuge from the chaos. The US will become increasingly susceptible to a (man) on a white horse, who can come from either the left or the right.

Inflation, as the most likely way to address debt since austerity is not politically acceptable, will significantly lower standards of living, exacerbating the civil crises.

Once the old rot is cleared out, and assuming continuity, there will be the basis for the establishment of a new order. (Added around 2020) The loss of faith by our youth in our founding principles means that the new order will at least partially be based on new principles. As yet, I have no visibility as to what those principles might be.

(Added in the early 00s) While humans are contributing to global warming, policies implemented to address manmade global warming will create a significant energy crisis, probably toward the end of the Fourth Turning.

(Added in 2023) The lowering / elimination of standards in education, the judiciary, law enforcement, the military and other segments of our society will create a population unable to adequately comprehend, do or respond to the challenges of democracy and culture.

## **Quotes to Contemplate**

DOOMBERG WINS with this quote from a podcast - Think about it - The current efforts against free speech in the UK are to stifle criticisms of energy polices that are doomed to fail.

The cure for a fallacious argument is a better argument, not the suppression of ideas. - Carl Sagan

## **Primary Ideas in This Week's Post**

"Slowly and then suddenly" is important.

Efforts against free speech are to support views in favor of policies and to quash views against those policies. Efforts against free speech are authoritarian.

The polls are still a toss-up.

Really stupid promises and policies abound in the campaigns of both sides. Truly a race to the bottom.

Both VP candidates are depressing.

## **A Very Important Component of My Contemplations**

I don't get into it much because it is complicated and difficult to explain. I mostly discuss it in terms of "slowly and then suddenly," but the whole discussion around how complex systems fail (a pdf I included with a previous post) is extraordinarily important and has profoundly affected my thoughts.

It is highly likely that we will wake up one day, probably over a weekend, and the world will have profoundly changed - think FDR's confiscation of gold and devaluation of the dollar, but even more consequential.

Probably not for some years yet, but possibly tomorrow.

At the bottom of this post, I have included some thoughts on this theme by John Mauldin. I highly recommend that you both read and think about it.

### **Markets**

#### **Updated Charts**

- > No change in outlook.
- > The Bank of Canada has abandoned their plans to implement a Central Bank Digital Currency
- > China implemented a series of steps to stimulate a flagging economy.

> Economics 101 is undefeated.



WSJ

## Argentina Scrapped Its Rent Controls. Now the Market Is Thriving.

### Short Takes

> Kamala things

Still ahead in polls, but still within the margin of error.

Last week I noted that Kamala said that if an intruder came in her house, they would be shot.

I thought this was not a prudent thing to say, but I'll take moments of truth telling wherever I can find them.

It seems that the base was outraged. So, her campaign spin is that she was joking.

Now we are getting flip-flops back to the left.

Walz decided to show he is as stupid about economic policies as the others. No reason to have at least one informed voice. "Well, it doesn't make sense that young and healthy people have to have insurance and pay for it because they are not sick. We should just have pools for sick people."

Joking must be in the water - a Russian official said President Vladimir Putin was joking when he said he wanted Vice President Kamala Harris to win in November.

*The Telegraph* says that Harris wins the award as the candidate who swears the most.

The more I see and learn about Walz, the more depressed I get.

Fascinating - and early days. There is an effort on X to find documentation of a legal case Kamala actually prosecuted. So far, nothing. I will keep track of this and see where it goes. In the end, it

won't matter, but I am fascinated by the kabuki of all of this - Walz's hard left turn to get elected governor; Kamala's hard right turn to get elected president; JD's giving up on any principle.

Another kerfuffle. Did Kamala ever work at McDonalds like she said she did? Circumstantial evidence says she did not, but nothing conclusive, one way or the other. People, if this is the biggest problem we have with Kamala (politicians lie, you understand - Walz is not as proficient as Trump, but he's no piker, and in terms of recounting his past, Biden was the master) then we have a keeper. Another bit of kabuki that does not matter. In an interview on MSNBC, she reiterated that she did work at McDonalds.

Kamala said she supported eliminating the Senate filibuster — the chamber's 60-vote threshold for most legislation — to pass a law protecting abortion rights nationwide. Kyrsten Sinema: "To state the supremely obvious, eliminating the filibuster to codify Roe v Wade also enables a future Congress to ban all abortion nationwide." I am reminded of the saying during the Vietnam War - "We had to burn the village to save it."

Joe Manchin said he would not endorse Harris. Manchin: "She knows the filibuster is the holy grail of democracy. It's the only thing that keeps us talking and working together. If she gets rid of that, then this would be the House on steroids."

Corporate taxes will go up.

> Trump things

The *Guardian* ran a long piece titled, "Is Trump a Fascist?" Their conclusions mirrored mine:

Too flaky to be an actual fascist and too erratic to be a credible authoritarian....

Trump is not and never has been a genuine exponent of fascism. In the end, he is too much of a cynical asshole. But for that reason he could yet be one of its enablers.

"Today I'm announcing a plan to end all sanctuary cities... We will hunt down and capture every single gang member, drug dealer, murderer, and migrant criminal."

The more I see and learn about Vance, the more depressed I get.

The Democrat Muslim mayor of Hamtramck, Mich., the first Muslim-majority American city, has endorsed Donald Trump for president.

*The Free Press'* assessment of the Trump campaign: "Instead of working hard to convince voters Harris is unfit for the top job, the Trump campaign has wasted too much time on two things: stupid stuff and bad stuff. "

Ben Hunt - "The question is not whether Trump will accept the election result if he loses. He won't. The question is whether a missionary with actual power will join him."

Trump will shut down the Department of Education. On the face of it, not a bad idea, but I have not done the research to actually understand what they do. K-12 education is local - and terrible. College education is either state or private. My guess is that this will never get near the top of my to-do stack.

> Immigration things

Employees of a kindergarten in Penzing, Vienna, have been ordered to dress modestly in order not to "burden" Muslim fathers picking up their kids.

> Boom!



**Antony Davies**  
@antonydavies

The 550 US billionaires together are worth \$2.5 trillion. If we confiscated 100% of their wealth, we'd raise enough to run the federal government for less than 8 months.

Perhaps our problem isn't how much billionaires have but how much politicians spend. 👍 @arcav3

I would change the last paragraph just a bit to  
Perhaps our problem isn't how much billionaires have but how much voters demand politicians spend.

Cowardice -

I was taken to task by MH about my Freedom of Speech article last week. He thought that I should have spelled out the n-word, particularly since I was spelling out swear words.

I replied that I did not do so strictly out of a sense of self-preservation. Just because something does not make any sense does not mean that it can't hurt you.

I am willing to take stands, but this is not a hill I am willing to die on. The cost/benefit is just way off. I wouldn't even get any sanctimonious self-satisfaction.

So, no.

> From *The New York Times* - a summary of findings from the Commission on National Defense Strategy -



China is outpacing the United States and has largely negated the U.S. military advantage in the Western Pacific through two decades of focused military investment.

The report recommended increasing military spending, partly by making changes to Medicare and Social Security (which is sure to upset many liberals) and partly by increasing taxes, including on corporations (which is sure to upset many conservatives). The report also called for more spending on diplomacy and praised the Biden administration for strengthening alliances in Europe and Asia.

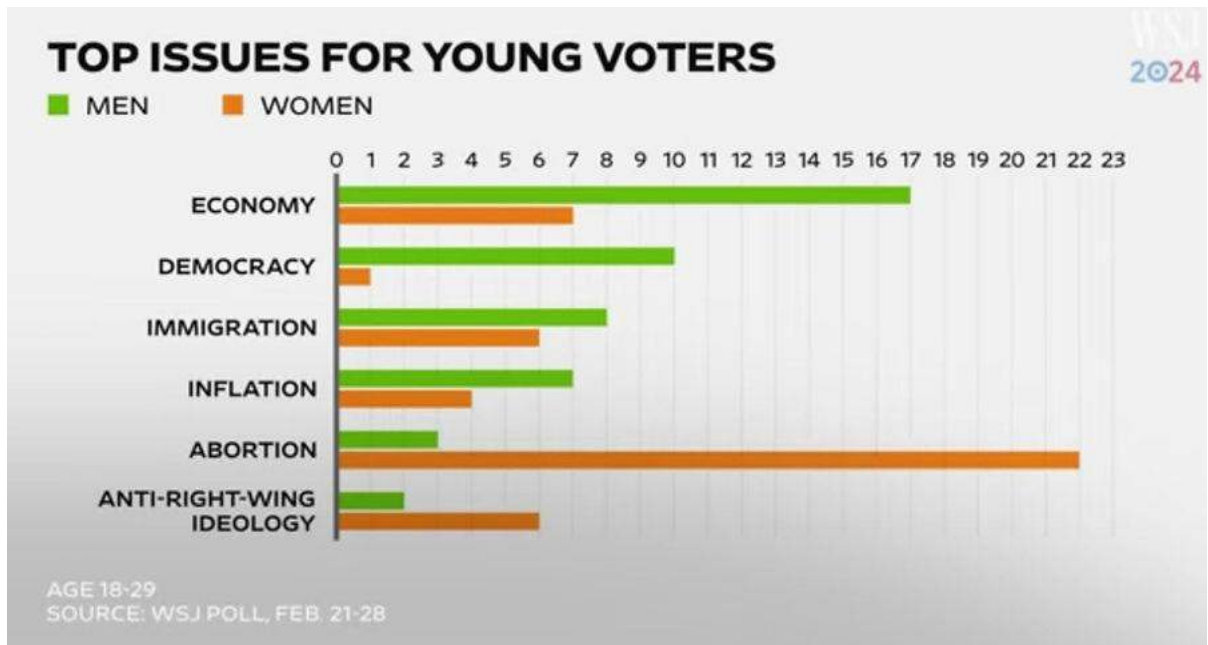
A Pentagon bureaucracy that's too deferential to military suppliers. The report criticized consolidation among defense contractors, which has raised costs and hampered innovation. The future increasingly lies with drones and A.I., not the decades-old equipment that the Pentagon now uses.

A U.S. manufacturing sector that isn't strong enough to produce what the military needs.

A polarized political atmosphere that undermines national unity. A lack of patriotism is one reason that the military has failed to meet its recent recruitment goals. Perhaps more worrisome, many Americans are angry at one another rather than paying attention to external threats.

> For the first time in modern American history, young men are more religious than young women (*NYT*)

An artificial intelligence model can beat CAPTCHA tests 100 per cent of the time



> Seriously, one of the most important days of my life was when I completed rehab for this syndrome.



**Hegel Borg™**   
@xxclusionary

I have a mental illness that makes me think that people will change their minds if I present the correct arguments with the appropriate facts and data.

> Last night there was a political ad on TV by Colin Allred, who is running against Ted Cruz for his Senate seat. The ad nicely summarized the extraordinary mess we are in. It features Cruz saying that we have to raise the retirement age for entitlements. That is the absolute least that has to be done and the retirement age will be raised, probably dramatically if entitlements are to continue at all, by necessity some time in the next decade. This is a rare case of a politician

speaking an inconvenient truth (I am not endorsing Cruz here). Allred uses it as a scare tactic and erects additional barriers against a discussion that is badly needed but will not be held. Nothing stops this train.

> The FBI released new data showing that overall violent crime fell 3% in 2023. That data is corrupted by police and attorneys general who do not pursue criminals.

Show me it's 2024 without saying it's 2024



Andy Ngo    @MrAndyNgo · Sep 23

New York City, Sept. 20 — Trans foreign national migrant prostitutes staged a protest in Queens to demand the right to stay in the U.S. and do street sex work. Video by [@FrontlinesTPUSA](#):



(Yawn) The government is now funded until December.

> Defining stupid down - and the venality of politics. The Inflation Reduction Act had nothing to do with reducing inflation - exactly nothing. Actually, by increasing demand for materials and labor to go into manufacturing and green things, it contributed to inflation.



**Pete Buttigieg** @PeteButtigieg · 20h

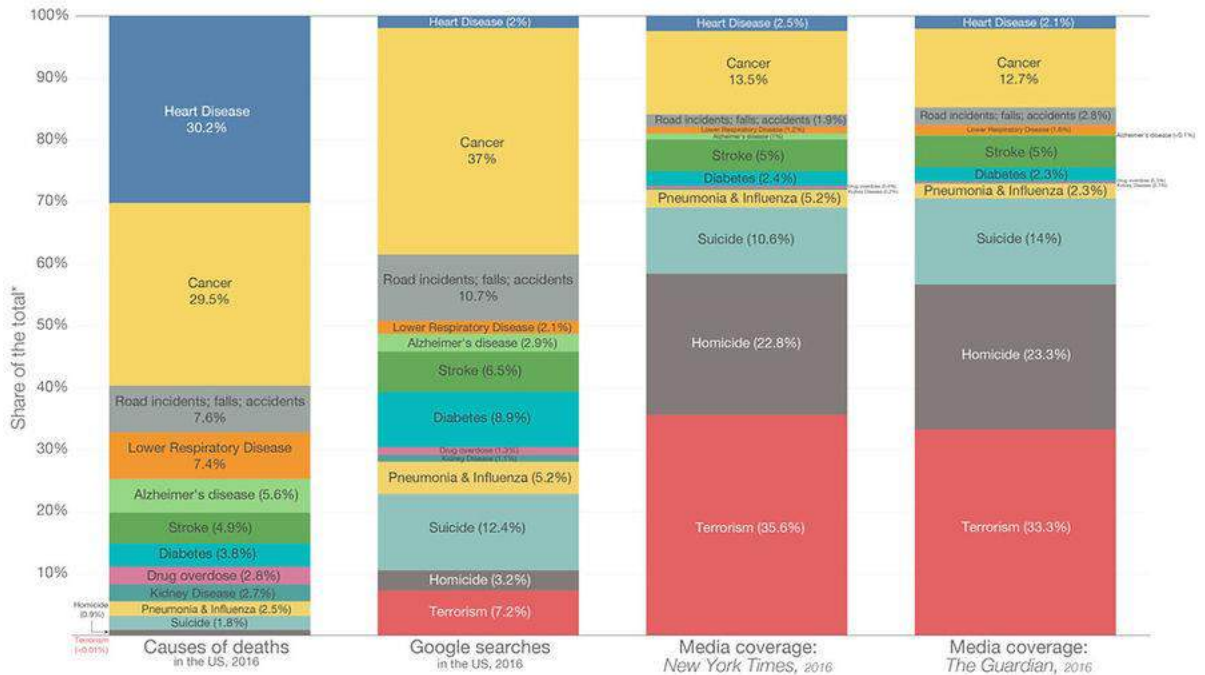
Sure is interesting how we passed the Inflation Reduction Act, and then inflation went down.

> Worthy of contemplation

## Causes of death in the US



What Americans die from, what they search on Google, and what the media reports on



> *Economist* headline - American Satanists Are Leading the Fight to Keep Abortion Legal

> *The Economist* has also declared America past peak woke (from your pen to god's ears).

## It Ain't Easy Being Green

> Life's complicated -

The closure of a Bitcoin mining facility in the Norwegian town of Hadsel has led to a 20% increase in electricity bills for residents.

The mine was shut down after the municipality declined to renew its permit due to noise complaints.

Kryptovault operated the mining facility for 20% of local power company Noranett's revenue.

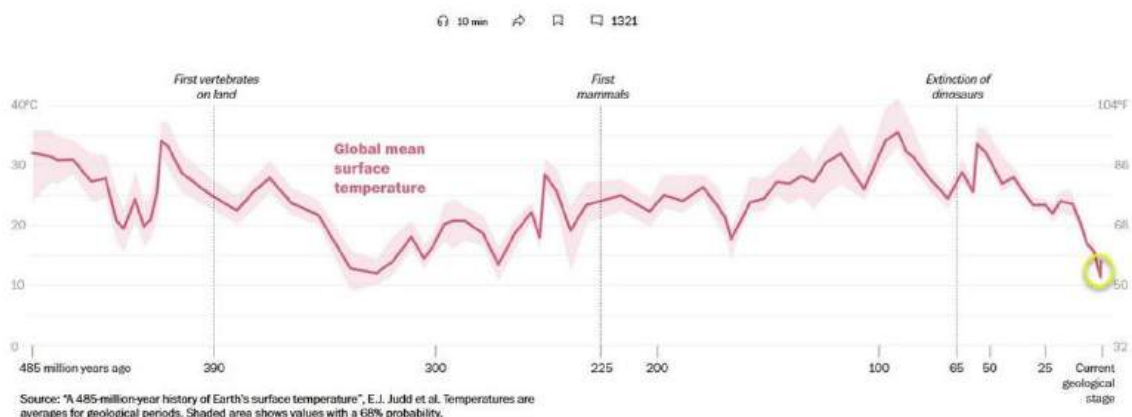
With the loss of its largest customer, Noranett is raising prices for households to compensate.

> Pennsylvania's Three Mile Island nuclear plant, which has been dormant for five years, will be brought back to life under the terms of a deal with Microsoft. The tech giant has inked an agreement in which it will buy all of the energy it produces for twenty years to power its AI technology. (*The Free Press*)

> This is both fascinating - for perspective - and meaningless. The global warming issue is not about history, it is about A CHANGE TO OUR STATUS QUO. It is the small area around the final data point that is important. We made it through ice ages and warming, but any changes to the current situation - and there will be changes, humans or no humans - will affect plants, animals, food and infrastructure. That is the problem.

## Scientists have captured Earth's climate over the last 485 million years. Here's the surprising place we stand now.

An effort to understand Earth's past climates uncovered a history of wild temperature shifts and offered a warning on the consequences of human-caused warming.



> Countries including Germany, Sweden, and New Zealand are ending EV subsidies.

> Russian agricultural exports have increased by 7 percent so far this year compared to the same period last year.

## Miscellany

Countries whose actual names are very different than their English names



## Mauldin on Ubiquity, Complexity Theory and Sandpiles

# Ubiquity, Complexity Theory, and Sandpiles

I'll be quoting from a very important book by Mark Buchanan called [Ubiquity, Why Catastrophes Happen](#). I HIGHLY recommend it if you, like me, are trying to understand the complexity of the markets. The book isn't directly about investing—although he touches on it—it's about chaos theory, complexity theory, and critical states. It's written so anyone can understand—no equations, just easy-to-grasp, well-written stories and analogies.

As kids, we all had the fun of going to the beach and playing in the sand. Remember taking your plastic bucket and making sandpiles? Slowly pouring the sand into ever bigger piles until one side of the pile starts to collapse?

Imagine, Buchanan says, dropping one grain of sand after another onto a table. A pile soon develops. Eventually, just one grain starts an

avalanche. Most of the time, it's a small one. But sometimes, it builds up, and it seems like one whole side of the pile slides down to the bottom. Well, in 1987, three physicists named Per Bak, Chao Tang, and Kurt Wiesenfeld began to play the sandpile game in their lab at Brookhaven National Laboratory in New York. Actually piling up one grain of sand at a time is a slow process, so they wrote a computer program to do it. Not as much fun, but a whole lot faster. Not that they really cared about sandpiles; they were more interested in what are called "nonequilibrium systems."

They learned some interesting things. What is the typical size of an avalanche? After a huge number of tests with millions of grains of sand, they found out there is no typical number. Quoting Buchanan:

"Some involved a single grain; others, ten, a hundred, or a thousand. Still others were pile-wide cataclysms involving millions that brought nearly the whole mountain down. At any time, literally anything, it seemed, might be just about to occur."

The pile was indeed completely chaotic in its unpredictability. Now, let's read this next paragraph slowly. It is important as it creates a mental image that helps clarify the organization of the financial markets and the world economy.

"To find out why [such unpredictability] should show up in their sandpile game, Bak and colleagues next played a trick with their computer. Imagine peering down on the pile from above and coloring it in according to its steepness. Where it is relatively flat and stable, color it green; where steep and, in avalanche terms, "ready to go," color it red. What do you see? They found that at the outset, the pile looked mostly green, but that, as the pile grew, the green became infiltrated with ever more red. With more grains, the scattering of red danger spots grew until a dense skeleton of instability ran through the pile. Here then was a clue to its peculiar behavior: a grain falling on a red spot can, by domino-like action, cause sliding at other nearby red spots.

"If the red network was sparse, and all trouble spots were well isolated one from the other, then a single grain could have only limited repercussions. But when the red spots come to riddle the pile, the consequences of the next grain become fiendishly unpredictable. It might trigger only a few tumblings, or it might instead set off a cataclysmic chain reaction involving millions. The sandpile seemed to have



configured itself into a hypersensitive and peculiarly unstable condition in which the next falling grain could trigger a response of any size whatsoever.” (Emphasis mine. —JM)

Something only a math nerd could love? Scientists refer to this as a critical state. The term critical state can mean the point at which liquid water changes to ice or the moment a critical mass induces a nuclear reaction. It means something triggered a change in the basic nature of the object or group. Thus (and very casually, for all you physicists), we refer to something being in a critical state (or use the term critical mass) when conditions allow for significant change.

“But to physicists, [the critical state] has always been seen as a kind of theoretical freak and sideshow, a devilishly unstable and unusual condition that arises only under the most exceptional circumstances [in highly controlled experiments]... . In the sandpile game, however, a critical state seemed to arise naturally through the mindless sprinkling of grains.”

Thus, they asked themselves, could this phenomenon show up elsewhere? In the earth’s crust, triggering earthquakes, in wholesale changes in an ecosystem, or in a stock market crash? “Could the special organization of the critical state explain why the world at large seems so susceptible to unpredictable upheavals?” Buchanan asks.

He concludes in his opening chapter:

“There are many subtleties and twists in the story... but the basic message, roughly speaking, is simple: The peculiar and exceptionally unstable organization of the critical state does indeed seem to be ubiquitous in our world. Researchers in the past few years have found its mathematical fingerprints in the workings of all the upheavals I’ve mentioned so far [earthquakes, eco-disasters, market crashes], as well as in the spreading of epidemics, the flaring of traffic jams, the patterns by which instructions trickle down from managers to workers in the office, and in many other things.

“At the heart of our story, then, lies the discovery that networks of things of all kinds—atoms, molecules, species, people, and even ideas—have a marked tendency to organize themselves along similar lines. On the basis of this insight, scientists are finally beginning to fathom what lies behind tumultuous events of all sorts, and to see patterns at work where they have never seen them before.”

# Fingers of Instability

So, what happens in our game?

“[A]fter the pile evolves into a critical state, many grains rest just on the verge of tumbling, and these grains link up into ‘fingers of instability’ of all possible lengths. While many are short, others slice through the pile from one end to the other. So, the chain reaction triggered by a single grain might lead to an avalanche of any size whatsoever, depending on whether that grain fell on a short, intermediate, or long finger of instability.”

Now we come to a critical point in our discussion of the critical state.

Read this next excerpt with the markets AND our economy and political reality in mind (and this is critical to our understanding of change.

Maybe you should read it two or three times.):

“In this simplified setting of the sandpile, the power law also points to something else: the surprising conclusion that even the greatest of events have no special or exceptional causes. After all, every avalanche large or small starts out the same way, when a single grain falls and makes the pile just slightly too steep at one point.

“What makes one avalanche much larger than another has nothing to do with its original cause, and nothing to do with some special situation in the pile just before it starts. Rather, it has to do with the perpetually unstable organization of the critical state, which makes it always possible for the next grain to trigger an avalanche of any size.”

(Emphasis mine.)

Now, let's couple this idea with a few other concepts. First, economist Dr. Hyman Minsky showed how stability leads to instability. The more comfortable we get with a given condition or trend, the longer it will persist, and then the more dramatic the correction when the trend fails. The problem with long-term macroeconomic stability is that it tends to produce unstable financial arrangements. If we believe that tomorrow and next year will be the same as last week and last year, we are more willing to add debt or postpone savings in favor of current consumption. Thus, says Minsky, the longer the period of stability, the higher the potential risk for even greater instability when market participants must change their behavior.

Relating this to our sandpile, the longer a critical state builds up in an economy—or in other words, the more fingers of instability that are allowed to develop a connection to other fingers of instability—the greater the potential for a serious avalanche.

A second related concept is from game theory. The Nash equilibrium (named after John Nash, subject of the Oscar-winning movie *A Beautiful Mind*) is a kind of optimal strategy for games involving two or more players, whereby the players reach an outcome to mutual advantage. If a game has a set of strategies with the property that no player can benefit by changing his strategy while the other players keep their strategies unchanged, then that set of strategies and the corresponding payoffs constitute a Nash equilibrium.

## **A Stable Disequilibrium**

So, we end up in a critical state of what Paul McCulley calls a “stable disequilibrium.” We have players all over the world tied inextricably together in a vast dance through equities, debt, derivatives, trade, globalization, international business, and finance. And more recently even in our politics and the global geopolitical order. Each player works hard to maximize their personal outcome and reduce their exposure to fingers of instability.

But the longer the game runs, says Minsky, the more likely it is to end in a violent avalanche, as the fingers of instability have more time to build, and, eventually, the state of stable disequilibrium goes critical.

Go back to 1997. Thailand began to experience trouble. The debt explosion in Asia began to unravel. Russia was defaulting on its bonds. Things on the periphery, small fingers of instability, began impinging on fault lines in the major world economies.

Something that had not been seen before happened. The historically sound and mathematically logical relationship between 29- and 30-year bonds broke down. Then country after country suddenly and inexplicably saw that relationship in their bonds begin to correlate, an unheard-of event. A diversified pool of debt was suddenly no longer diversified. The fingers of instability reached into Long Term Capital Management and nearly brought the financial world to its knees.

# No More Business Cycles

One last comment that I picked up over the years. My friend Peter Boockvar actually crystallized this thought, but I think I'm going to make it part of my own liturgy: We no longer have business cycles; we have credit cycles. Central banks and governments, not to mention investment banks and investors, are all using credit in formerly unbelievable ways, and I am here to shout that the world is becoming one massive finger of instability.

Let's go back to that 1987 mathematical experiment. The simple fact is there are green sand dots all over the world. They represent stability in the global system, which is allowing the fingers of instability to build up in a potentially deadlier way than we have ever seen before.

While we had to deal with a virus-triggered recession, followed by severe inflation and higher interest rates, thankfully the economy remained (more or less) stable. Yes, the world looks different in 2024 than it did in 2019, but we avoided global economic catastrophe.

We take comfort from the stability we see around us. Corporate profits are up. The S&P 500 touched a new all-time high this week. We are greeted every day with some amazing new technological innovation that changes everything in some industry. Living standards keep rising. Minsky tells us stability breeds instability. That sandpile experiment, as simple as it seems now, shows that the longer the stability lasts, with the fingers of instability connecting in hidden and unknown ways, the greater the avalanche will be.

I suggest you read at least the first half of Nassim Nicholas Taleb's book, *Antifragile*. Here are three lessons that will show you what it means to be antifragile:

- Fragile items break under stress; antifragile items get better from it.
- In order for a system to be antifragile, most of its parts must be fragile.
- Antifragile systems work because they build extra capacity when put under stress.

This is a great way to explain the sandpile game in economic terms. Economic sandpiles that have many small avalanches never have large

fingers of stability and massive avalanches. The more small, economically unpleasant events you allow, the fewer large and, eventually, massive fingers of instability will build up.

Efforts by regulators and central bankers to prevent small losses actually create the large fingers of instability that bring down whole systems and spark global recessions. And, increasingly, giant debt and the unfunded liabilities of government promises are becoming the most massively unstable finger.

In the next crisis, things that should be totally unrelated will suddenly become intertwined. The correlations of formerly unrelated asset classes will all go to one at the absolute worst time. Panic and losses will follow. Governments will try to stem the tide, perhaps appropriately so, but eventually, the markets have to clear.

There is a surprising but critically powerful thought in that computer model from decades ago: We cannot accurately predict when the avalanche will happen. You can miss out on all sorts of opportunities because you see lots of fingers of instability and ignore the base of stability. And then you can lose it all at once because you ignored the fingers of instability.