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A Smarter Way | Episode 5
Ben Hunt, Author of Epsilon Theory & Co-Founder/CIO, Second Foundation Partners

We conclude our A Smarter Way series with Ben Hunt, author of Epsilon Theory & Co-Founder/CIO of Second Foundation Partners. SmarterMarkets™ host David Greely sits down with Ben to discuss how the narratives and stories we tell ourselves shape our decisions and may be one of our biggest obstacles to finding a smarter way forward.

Ben Hunt (00s):
This is the business of Wall Street. The business of Wall Street is to get you to buy and sell, to get you to transact, particularly to buy. And what drives our behaviors to buy and sell? A story. We have to be paying attention to it. The "why." Why should we do something? That's story creation. And that's what Hollywood and that's what Wall Street do better than anyone else. And once you start thinking of it in those terms, it really changes, I think, for the better how you can be an active participant in markets.

Announcer (32s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions are we facing a crisis of information or a crisis of trust and will building Smarter Markets be the antidote?

David Greely (57s):
Welcome back to our final episode of A Smarter Way on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Ben Hunt, Author of Epsilon Theory and Co-Founder and CIO of Second Foundation Partners. We'll be discussing how the narratives or the stories we tell ourselves shape our decisions and may be one of our biggest obstacles to finding a smarter way forward. Hello, Ben. Welcome back to SmarterMarkets.

Ben Hunt (01m 25s):
Oh, that's great to be here, Dave. Appreciate it.

David Greely (01m 27s):
Well, it's really great to have you here. I've been really looking forward to this because I think you understand the role of narratives probably better than anyone. And you know, I've wanted to really talk to you because I think that understanding the role of narratives, the role of the stories that we tell ourselves is really critical to understanding why we continue to make the same mistakes over and over again to breaking that cycle. And as we've been trying in this series, to find a smarter way forward and I think, you know, that's because these narratives, these stories shape at a level that we're often even not aware of the way we think, the way we take in or ignore the information around us, and the way we make many of our most important decisions and you've put a lot of thought into the role of, of narrative in these stories and so I wanted to start off today asking you, how should we be thinking about the role that narratives play in our lives and our decision making?

Ben Hunt (02m 29s):
Well, thanks for the kind words, David I don't know if I'm the done the most thinking about in narratives, but I've been, have been working on it for a long time from a couple of different perspectives. You know, I started my career as an academic, I was a professor, and I wrote about political science of all oxymorons, and I was writing about the role of, I guess we'd call it unstructured data, now narratives as you, as, as you're putting it back then and I started a couple of technology companies, again, focused on unstructured data and understanding the patterns of what we hear and what we say. And then, gosh, for the last 18 years or so, have been involved with markets with investing again on the basis of not fundamentals as they're understood, but as you say, narratives.

Ben Hunt (03m 18s):
And so is it been a professional career of looking at this and what I would say to reinforce the point you just made, narratives are the water in which we swim, right. It's a, it's the old David Foster Wallace story predates him, of course, but these two young fish are swimming along, older fish comes swimming the other way and says, morning boys, how's the water and the two young fish, look over. Yeah, what, that's fine. Whatever grams they swim on and then one of the younger fish looks at the other and says, what the hell is water right and that's really the role, as you say that, I think narratives play. What's a narrative, a narrative is a script. A narrative is a story arc, a narrative is a way that we human animals understand the sensory perceptions we have and in particular, where particular type of human animal we are in the technical sense of the word, a social animal, it's us, it's bees, it's termites, and it's ants, right.

Ben Hunt (04m 29s):
Not coincidentally, four of the most successful species on the planet. What is at the base of what makes a social animal is that our sensory inputs are dominated by our intra species communications, right for ants, termites, bees, it's pheromones and the like. For humans, it's our language. Yes, we take in a lot from the world through our eyes, our ears, and the like, but the information we're taking in is dominated by us communicating to each other and the way we make sense of that is through story, by putting a pattern to the messages that we receive from other humans. Quick example, right I watch a lot of TV, I love TV. So there have been over 600 episodes of Law and Order felt, you know, the police procedural, haven't watched all of them, but I've watched more than my fair share. The point being that there are only a dozen scripts for law and order all 600 and something episodes.

Ben Hunt (05m 32s):
There're only a dozen scripts. Only a dozen story arcs and there's a structure even within that, a singular structure. It's a three act play, right. As is every movie you've ever seen, every scripted television show, it's a three act play. So, you know, type in whatever your favorite show is or movie plus three act play or three act structure, and you'll see the, the diagram of it. It's crazy, but it's specifically for, for law and order. About halfway through act one, you'll be introduced to someone who seems to be a tangential character, a neighbor, a family member, someone like that. That tangential character will then be reintroduced at the beginning of Act three as the crucial character around which the entire plot hinges, right. Every episode, that's the pattern, that's the script and it exists because it works. We as human animals, as human social animals, we are hardwired.

Ben Hunt (06m 35s):
I mean that very literally, we are evolved, our brains have evolved around language. We have neural clusters that are designed specifically to pick up particular grammatical structures and patterns within our intra species communication. It's how we make sense of the world, but because it is so fundamental to how we make sense of the world, like water, it can be difficult to see it. So my professional career and particularly as it pertains to markets and understanding investing is to try to help us see the water, to see the stories as you put it, that we tell ourselves over and over again within markets, within politics, within our social lives. It's all based on this common structuring of language that we understand in pretty predictable ways. That's how we should think about narratives.

David Greely (07m 28s):
That's fantastic, and I want to dig into and, and have your help in helping us see the water, but there were a couple of points that you just made that resonated with me. First as a longtime law and order fanIt's interesting, the, you know, there's a comfort that comes from that structure, right you know, what's coming next, you might not know the details, but you know the way it's gonna play out. And so you just relax, sink into the couch, and you're good for, you know, the album.

Ben Hunt (07m 55s):
You enjoy it's phenomenal, David, that the entire business of Hollywood, the entire business of presenting these stories to us, they all follow the same rough pattern. Like I say, the three act, play structure, this notion of what they call rising action and the declining action, the notion of a McGuffin, right, that was Hitchcock's phrase for the object of desire. You know, it's who done, it's the treasure, it's the map, it's the way in, it's the way out. Whether it's a horror movie, a drama, a comedy, they all have an object of desire around which the plot is structured and once you start looking for that structure, you understand that it's also true when we talk about investing right. There is a McGuffin there's this object of desire that may be different from whether you're investing in individual stocks and FX and credit the stories, though, the language we use to say, I'm bullish on something, I'm bearish on something. We use the same grammatical structures, the same or similar words, whether we're talking about big, small, this asset class, that asset class is like so many things in our world. Once you start looking for it, you'll see it everywhere and it makes a real difference.

David Greely (09m 17s):

And it speaks to the power, you know, when you're bringing up investing in markets, right. On the one hand, this is the era of big data. We have more information available than at any point in human history to base our investment decisions upon. But as your professional career demonstrated that qualitative aspects are so important, and probably the role of storytelling in investing has never been more prominent either, which is a bit of a contradiction, right?

Ben Hunt (09m 49s):

No, but you're absolutely right. So there have been a number of, I'll call them secular changes in society that have actually augmented the role of storytelling and narratives. So I'll put up three that are particularly impactful for the world of investing. The first is the development, the structure of the media industry and this goes back, you know, this goes back 20 years, but certainly it's more in the last 15 years, 12 years, where this has really taken off but it's the development of the 24x7 news and I know this is a podcast, but I'm using the little quote signs here. News channels, both for financial news, CNBC, Bloomberg, Fox Business, but also of course for News News, right? CNN, MSNBC, Fox, et cetera. So I'd put the word news in quotation because obviously there's not enough news as we understand the world to fill the programming schedule of a 24X7 channel, much less multiple of these channels.

Ben Hunt (10m 55s):

So what is required then is to what we like to call fiat news, not fake news. It's not something that's made up, but it's the presentation of opinion as news right and again, once you start looking for it, you'll see that 95%, maybe 98% of CNBC programming Bloomberg, similarly is fiat news. It's the presentation of opinion as news. So that's, that's one structural change. This happened. We've developed a media system that requires the constant presentation of opinion, which is a story, so that's one, right, so that's one structural change number two is the development of social media, right. Again, it's a podcast, but right now I'm holding up my little dopamine machine, my iPhone. So we've done this to ourselves. We willingly carry around these little machines that present stories to us that present messages intra species communication, constantly, constantly.

Ben Hunt (12m 01s):

We can't, they say it's not done to us, but we embrace it and so the, the role of these communications has grown dramatically in all of our lives. That's systemic change. Number two, systemic change. Number three is that everyone is in on the act and what I mean by that is that politicians have understood forever the important role of a story arc, of creating the right narrative to get elected or get appointed and to stay in power. The fact is, today everybody gets it. Every CEO understands that the path to a better stock price and better compensation for him or herself is to create a better story about the company. What is story when it comes to companies it's multiple. That's what a multiple is a multiple is a story. That's it. Central bankers the same way when they talk about forward guidance or communication policy, it's the use of their words to intentionally create a behavioral response from us.

Ben Hunt (13m 02s):

Not necessarily truth for what they're thinking or going to do, but what sort of response they want to get from us through the instrumental use of their words. So, you're right, David, that the role of narrative is a lot larger in our, in our lives today and I would really point to those three structural factors, media system putting into prominence 24x7 opinion channels, the development of social media so that we willingly take in communications much more than we used to and third, the realization by powerful interest, institutional interests, banking, commerce, politics, that creating a good story is in fact the way for their success.

David Greely (13m 49s):

And I want to pursue that perhaps in a darker path than sure, than, than you intended of, you know, almost the weaponization of story in a way.

Ben Hunt (13m 59s):

They're almost about it. David, you're almost.

David Greely (14m 04s):

We're on the right path then, because, and I'm thinking that in the context of this increasingly important interplay between narratives and artificial intelligence like you said, everybody gets it, and now the machines are getting it too. So we've seen AI like, you know, most recently chat GPT is crossing the threshold where it can create stories and like all technology, I'm sure those will have good and bad parts, and it'll take us a long time to figure out what they are, much like the dopamine iPhone machine in our pockets. Yep but I want to get your thoughts on to what extent is AI being helpful and that it's helping us understand the structure of these narratives

better, you know, as you put it, you know, to see the water in which we're swimming and then also like on the darker side, what's the risk of it making it easier for us to be manipulated through the easy creation of narratives?

Ben Hunt (14m 56s):
Yeah. So it, it is that double edged sword as you're describing David and I think the place to start is to talk about, well, how do we understand the structure of stories and narratives, because it's not, you know, a qualitative sense we're talking about. There is a way to quantify and to think really rigorously about the relationships between linguistic structures, words and their impact on human behavior and what that requires is not just big data as you're describing. So for example, in our firm, you know, we license with, they're just three of these big data providers. But, you know, we use Dow Jones in particular. So everything that's published, every transcript, every website, every newspaper, everything is communicated in the English language on a public media source. We get that every morning. It's amazing, right, like I've been researching this stuff for 35 years now in a professional career, and it's phenomenal how relatively cheap, right?

Ben Hunt (16m 01s):
I mean, it's not cheap, but it's not prohibitively expensive, as I say, to get everything that's, that's published or out there in the English language around the world every day to get that delivered to you. It's amazing that even more important than big data, and this will get to this notion of, of AI is, I don't like to call it AI so much as I'd like to call it big compute, big data, but there's also big compute and the reason I like to describe it as big compute rather than AI, is that AI still connotes, at least to us, for me, this notion of a giant brain you know, that's reading in this, in this scenario, everything in the world and pondering it and thinking about it. You know, we anthropomorphize computing technology so much and I think the word AI has a strong element of that.

Ben Hunt (16m 52s):
But that's not really what drives the systematic study of narrative. The algorithms we use are actually, you know, they're not terribly complicated. I mean, we're using the same algorithms that I was using 20 years ago and 30 years ago. They're basic network algorithms that are not very complicated, but they, you have to scale them enormously, enormously. So, you know, quick example, let's say you've got a thousand articles you wanna look at and to understand the interconnection and you know, what stories are being told in these 1,000 articles. That would be a very small number for us to analyze. And let's say that each of these articles has a thousand, not words, but are what are called Ingrams, the letter Ingram an Ingram is a, a unit of linguistic, meaning it might be a single word, but it also might be a pair of words, it might be a phrase.

Ben Hunt (17m 45s):
You know, so let's say each of these thousand articles has a thousand of these Ingrams, these units of linguistic meaning what, what you're basically trying to do in all these technologies which are called natural language processing NLP, the basic idea here is you're just comparing Ingrams with each other and seeing are they the same. Are they match. It's just an enormous calculation. So a thousand articles with a thousand Ingrams, yet, that's a thousand factorial comparisons you have to make. That's half a trillion comparisons you have to make. Not a complicated comparison, right, like I say, the, and then the algorithms for processing those comparisons are fairly trivial, but it requires enormous computing power to do this any sort of timely fashion. The development of big compute, the ability for us to plug into AWS or Azure or you know, one of these big cloud computing platforms where we get computing power the same way we get electricity from the wall.

Ben Hunt (18m 43s):
That's what transforms this data. That is what transforms it. It allows us I say we have an invented cold fusion here. What we're using are networking algorithms. They've been around for decades but the combination of big data and big compute allows us to visualize and measure the structural relationships between units of linguistic, meaning that's the technology, you know, there are ways to use kind of more machine learning techniques to like to kind of train a computing processing set on specific languages and the like. So, but it, but as core, it is very base, it's less AI than is just brute force computing power and it really does change everything. So your question though was, all right is this used for good or for ill right? Is it, and, and I say it's absolutely a double edged sword. How's it used for ill, it's used for ill because the AB testing of language used by big media, big tech, and big politics is astonishing today.

Ben Hunt (19m 51s):
The way that they are able to see, okay, what kind of response do we get in engagement because that is the metric that all of those societal entities demand in big media, big tech, big politics, what do they want, they want engagement and their ability through social media, through these 24x7 news channels, through the fact that everyone is a missionary and wants to create a narrative, their ability

to say, okay this set of linguistic structures got this kind of engagement response. That set of linguistic structures got that set of engagement responses from that group of people. The ability to test this is everything and at the heart of it is what I'm describing using a systematic understanding of language to test and see what kind of engagement do we get from that. That's the ill, that's the weaponization of narrative, the weaponization of words in exactly the same way that we talk about weaponizing a virus or a bacterium in a bio lab, right?

Ben Hunt (20m 58s):
The words, these linguistic structure, that's the DNA of a message and you can again, very literally insert snippets of language in exactly the way that you would insert or remove snippets of DNA and then you test it on us right. It's exactly the same process, just in this invisible world of language and narrative not the invisible world of microbes, but it's exactly the same process. What's the good side of it, the good side of it is, well, you know what, like so many things in our world, once you show people that there is a structure and a pattern and that you were being sold an opinion in the same way that you would be sold a shirt or a box of soap, it does help you maintain a critical distance. It helps you step back and realize that you were being sold to.

Ben Hunt (21m 52s):
And just having that sort of critical distance, I think that makes all, all the difference in the world because it's not that you should fight the fed you know, go against the narratives on the contrary, right to make money or to invest successfully on this, you want to recognize, you want to go with the narratives and understand where the narrative is going. There's a life cycle to these narratives and when the narrative starts to die, you want to be underweight that thing, not overweight. When the narrative is growing, you want to be overweight, not underweight, all that stuff. I'm not saying to fight it. What I'm saying is you don't give your heart to it, right, you maintain that critical distance so that you're not the sucker at the table. It's that old, it's that old poker saying, if after 30 minutes you don't know who the sucker is at the table, it's you our goal here is we just don't wanna be the sucker at the table and that's what the technology, I think I really do believe can do for us. It can show us how language, the messages we hear all day long are being chosen and constructed to drive us in a certain behavioral direction. That's where I think it can really be used for good.

David Greely (23m 03s):
Right and I find it's fascinating, the generational divide. I have children who are Gen Z and they seem so much more savvy to recognizing when they're being marketed to in a way that I certainly took me a while to figure out. I'd love the idea though, you brought up of the idea that narratives have a life cycle and how do you think about, like, what does that arc look like, maybe to put it into story terms?

Ben Hunt (23m 31s):
Oh yeah, yeah, yeah. No, it's just like we have a movie script that you, the story arc will be, call it two hours, and then you have a, you know, television script, a law and order script where the story arc resolves itself in, you know, 45 minutes is exactly the same way in any application of understanding the narrative lifecycle. In investing, we like to divide or to think about, we call the micro and macro narratives in exactly the same way you would talk about microeconomics and macroeconomics. So of course, microeconomics, it's the study of every transaction, right, microeconomics is, you know, supply, demand, buyer, seller, just the very basic or fundamental aspects of every aspect of economics. That's microeconomics. Macroeconomics on the other hand is trade between one country and another. What's the role of tariffs, right, what's the role of monopoly power in this particular industry That's gonna be macroeconomics.

Ben Hunt (24m 37s):
And it's the same way with narratives. We think there are four basic micro narratives that apply everywhere to anything is something cheap. There's a language for that to say something is cheap. Say something is expensive to say, you're bullish on something, which is not the same thing as saying that it's cheap to say that you're bearish on something, which is not the same thing as saying that it's expensive. We think those are kind of four basic narrative life cycles that apply everywhere at any point in time on any asset right and then you've got the macro narratives like, is the fed hawkish or dovish, right. Are they focused on unemployment or are they focused on inflation. Where are we in the business cycle you know, is are we in a recovery going towards a growth stage in the economy. Those are your macro narratives.

Ben Hunt (25m 30s):
And like television and TV, they have different life cycles in terms of how long they're alive and how long they're around the life cycle of these micro narratives cheap, expensive, bullish and bearish. They tend to be shorter, right. They're like a sitcom where, you know, they

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can rise and fall over a couple of weeks. Macro near is on their time. They could go on for months, for months. So that's how we think about it, kind of these life cycles. But in every case, basically what you're trying to do as an investor once you're identifying these narratives, is you want to be overweight the narrative as it's starting off and growing and then you want to be underweight that narrative as it fades and it gets replaced because like any living thing, they're born, they live, they grow and they die to be replaced by another narrative. Because this is the business of Wall Street, the business of Wall Street is to get you to buy and sell, to get you to transact, particularly to buy and what drives our behaviors to buy and sell a story. We have to be paying attention to it. Why should we do something that's story creation and that's what Hollywood, and that's what Wall Street do better than anyone else and once you start thinking of it in those terms, it really changes I think for the better, how you can be an active participant in markets.

David Greely (27m 00s):
Yeah. I want to take some time with you today to kind of move maybe more macro than macro because I know there's a long arc story that you've been putting a lot of thought into recently, and that's the narrative we tell ourselves around education and higher education in particular and for me, and probably like a lot I, the narrative that education and learning is the way we find a smarter way forward. Has been very important, as Thomas Jefferson said, and educated citizenry is a vital requisite for our survival as a free people. You know, essential to our democracy, to our Sure. Markets, et cetera. And, you know, going to the university he founded, I went to the University of Virginia and then to the University of Chicago, opened a lot of doors.

Ben Hunt (28m 00s):
Absolutely.

David Greely (28m 02s):
But as you know, and there's a big butt, I can't help but think that something has gone wrong in that storyline and you've been writing a lot about that. So I wanted to ask you, what do you see as the current state of the narrative around college and higher education?

Ben Hunt (28m 11s):
Yeah, you're right David, in so many respects, this is a very long arc because these sorts of stories, I'll call them the foundational stories. These are decades long stories. What happens, I believe in so many of these stories is that they begin their lives as such a powerful force for societal good and over the course of time, they become co-opted by the great power structures of our day basically government and wealth, the state, I like to call it the, the nudging state, right. This isn't, you know, some jackbooted thugs here, though. It's, the use of story and narrative to maintain and to grow state power. Similarly, I call it the nudging oligarchy, right. It's not the use of, you know, paramilitary squads or the like, but it's the use of stories and narratives to maintain and grow corporate power and the use of story by both.

Ben Hunt (29m 21s):
Again, you know, the phrase I like to use, the nudging state, the nudging oligarchy to preserve and expand their power within the realm of higher education, I think has just been both tragic or I think the outcome of this becomes tragic, but it also makes me angry because it becomes kind of this big a lie based on a kernel of truth. That education is in fact where social mobility and education in becoming a better citizen, in becoming a better human being and becoming a happier human being. I think that is absolutely true. Like so many things in our world, it becomes part and parcel of the maintenance of mass society and the maintenance in a certain direction and the use of story and narrative to drive that specifically with education. There's a concept we call it, it's, it was called, you know, we didn't name this, but it's called common knowledge.

Ben Hunt (30m 23s):
And common knowledge is how a narrative or a story becomes ingrained in a society in an aspect of our world. Common knowledge is not what you or I personally believe, but it's what we believe as a group that everyone else believes as a group and when common knowledge takes place even if we disagree with the common knowledge, it is rational for us to go along as if we agree, right, because if we think that everyone else thinks something is we have to go along with that and today, we all know that, we all know that the way to get ahead in society for ourselves, for our children is for them to go to, yes, go to college, but it's not even going to college anymore. They have to go to a good college, a selective college, a highly selective college, an elite college that's the way you get ahead.

Ben Hunt (31m 20s):
And so we put enormous pressure on our children to get into the good college. We put enormous pressure on ourselves. We borrow enormous sums of money. We start this process when our kids are three years old or four years old, because we all know that, we all

know that this is the path towards a better life and when you look at actual outcomes, however you see that certainly over the last 20 years or so, this ain't true. Yes. There's still a kernel of truth here. There absolutely is a kernel of truth here, but particularly the stratification of good colleges versus not. It has nothing to do with education. It has everything to do with the establishment of a very well accepted educational cast system and we have taken on enormous debt to pay for this. I mean, the numbers are just staggering.

Ben Hunt (32m 19s):
And this is the, the article I recently wrote. So the, the price of a college education has increased three and a half times the rate of inflation in everything else since 1980, relative to our incomes. Three and a half times increased relative to our incomes. It's part of this bargain, an unspoken bargain between colleges and universities and the government and the hiring of people, right, corporations that they are allowed, that it works for colleges and universities to keep rising the price higher and higher for no improvement in level of education, for no improvement in outcomes as made possible through the greatest extension of debt financing from public sources. That's ever happened in the history of man, right $1.6 trillion, $1.6 trillion in student loan debt. 93%, 94% of that is provided by the federal government. Where does the money go it goes for the creation of an institutional empire.

Ben Hunt (33m 31s):
Any college, any university you want to look at, particularly our most prominent ones have gone on a spending spree to buy properties to build more and more lavish buildings and to hire more and more administrators at higher and higher salaries to oversee it. It's the new medieval church that's what academia has become and it exists because it maintains that socially necessary narrative that mobility is possible, that everyone can get ahead if you just go to the right schools. It's a steam valve for societal pressure of enormous power in our world and when I talk about political power, I'm not talking about Republicans versus Democrats. I'm not talking red versus blue. I'm talking about the way our society is organized, our most fundamental beliefs about what we want for ourselves and our children and that's why it's been so important for government, for the state to provide this easy financing to keep this process going.

Ben Hunt (34m 40s):
And that's what I fear is coming to an end as we realize, as it becomes more and more obvious that the enormous debt that's taken on does not make us richer, but actually would become poorer from it as we realize that the outcomes, whether it's stated in incomes or education, whatever the outcome you're looking for, it has not improved even though the cost of this has risen so dramatically. We understand more and more what an educational caste system looks like. All these things are happening and that's why I think that there's a big reckoning to occur here. The story of common knowledge is the story of the emperor's new close. It lasts and lasts and lasts until there's a moment that breaks the story. And I think we're getting very close to a breaking of the story because that $1.6 trillion in public financing of private debts that can't be maintained.

Ben Hunt (35m 43s):
So anyway, I've gotten kind of off on this, but I appreciate the question because to me this is, this is the thing that very few people I think are paying attention to right now because it deals with the water in which we swim, the deep water in which we swim, our fundamental belief that education is our ticket to a better world and I think there are real catalyst here, particularly about the way we finance and fund college education that are coming to a head over the next 6, 12 months and could really create that emperor has no closed moment for profound consequences, economic, politically, socially, on this most fundamental narrative we've got.

David Greely (36m 22s):
That's why I'm so glad to be able to talk with you about it, because as you said, it's so fundamental, so foundational correct and the story has a lot of elements of a tragedy to it, right, like education, we wanted to be the great leveler of society. You know, create opportunity for all. We all have a fair shot on a level playing field, and that lifts all the boats and as you describe it, and as I think many, many people experience it, these higher educational institutions have become more gatekeepers. They're not a driven to left u they are to be selective

Ben Hunt (37m 00s):
Yes.

David Greely (37m 11s):
It's in the name highly selective and it sounds like, you know, we're, we're in act three of the play according to your reckoning and I would imagine when a story like the one we've been telling ourselves about higher education comes to an end that can be very

tumultuous. One thing I loved from the beginning of our conversation was your idea that we tell stories and stories are so important because we're social animals and the story doesn't only tell us, doesn't only shape how we take in the world, but it lets us know that we're taking in the world in a same way that the people around us are. So in some sense, it's like keeps us from feeling alone and helps us coordinate with those around us. and so as you look forward and start to try to think through how does this potentially play out, if this crushing load of debt makes this narrative unsustainable, how do you transition through that? Is there another narrative that needs to replace it? And how do you think through that dynamic?

Ben Hunt (38m 07s):
Yeah, you're right that is always another narrative you know, it is the cycle of narratives. The king is dead long-lived, the king, right as you know, you would say in for the French monarchy or any monarchy, it, there's, there's always the replacement narrative, but that process of replacement as you're describing, is inevitably pretty awful right and we can easily imagine what it looks like in this case. So if by my estimate the price we pay for a college education is twice what we should be paying or we would be paying if we didn't have infinite amounts of very cheap debt financing available to us, if that goes away or it's changed so dramatically from what is available today then all of these edifices that have been constructed around this free flow of money around, I mean there are two sources.

Ben Hunt (39m 07s):
There's public debt financing of private loans and there is the tax code between these two political actions, trillions of dollars, trillions have gone to, I'll call it the entire ecosystem of higher education, higher education or education in general is about 6% of our GDP today. Second really only in terms of these social things to healthcare, which is a whole another, you know, which we can talk about as well and it's had a very similar dynamic of really cost plus accounting that is allowed for the creation of these enormous fiefdoms, institutional fiefdoms, but around medical centers rather than universities but just focusing on universities, think about what happens if that spigot of money gets turned off. Think about all of student housing projects that have been built more and more lavishly in every college town in America. Think about what happens when there're actually layoffs, God forbid on the thousands of administrators that have grown up around education.

Ben Hunt (40m 09s):
Look, it's going to be my belief, an outright depression in every economic sector that touches higher education and that's awful. I mean, that, that there, there, there's so much pain, real human pain associated with that. But I don't think that the can be kicked much farther down the road in terms of the debt financing and the tax code allocations that continue to favor frankly, our most well-healed institutions. It's the richer of these scholastic institutions that get the best of this deal right it's crazy. So there is this wrenching pain associated with it and then the question becomes what's the new story, what's the new narrative to replace it. It can go one of two ways, David, I can give you examples of where the new narrative is a really bad narrative right, one that goes down the path of really being the antithesis of human autonomy and progress and the small l liberal virtues and small conservative virtues that we all hold, but a narrative that just augments the power of the nudging state and the power of the nudging oligarchy.

Ben Hunt (41m 25s):
Or I can give you plenty of examples of where the narrative reclaims the old story of what education used to mean in this country, the role it used to play in our society and honest to God, I really believe we can get back to that. But that's the fight David, right there is, is not how do you prevent what I think is an inevitable really collapse of the on regime, what, what we've got going on right now, but what comes after the collapse and do we respond with giving more authoritarian power to come out of that or do we reclaim a smaller but more vital and more human experience for education and I think we can get there. So that's what I'm gonna be writing about over the next couple of months. So but that is the struggle not to prevent the decline, but how do you then replace that with a story that motivates our better natures and not our worst natures?

David Greely (42m 28s):
Sounds like creative destruction coming for higher education.

Ben Hunt (42m 32s):
You got it.

David Greely (42m 43s):
You've been so generous with your time, but you know, you put out there that there's a maybe a, a hopeful arc that we can be pushing towards.

Ben Hunt (42m 41s):
Absolutely.

David Greely (42m 42s):
And I'd wonder if you could give us a little preview of that and importantly, what can each of us do to help make sure we go down that fork of the road and not the darker fork?

Ben Hunt (42m 53s):
So I, this will sound crazy. I hope it doesn't, when I write, it'll maybe sound less crazy. I think that the core issue the current problem we have is one around public financing to maintain this educational caste system. I think that public financing should be reserved for, frankly, non-selective schools, community colleges, trade schools, places that are not used to maintain a credentialing, oh, I went to X, Y, Z college, but education that is used for that aspect of social mobility that we're describing for. So that, that's one is, and there are lots of ideas around here, you know, let's get rid of the tax-free advantages that college endowments, university endowments have if they want to continue giving preferential admissions to alumni kids, right or if they're, you know, using the money for X, Y, Z, you can do that, but you're no longer a tax-free entity.

Ben Hunt (43m 54s):
So there are lots of aspects I think, around the financing, making changes in the current use of the tax code and public lending, public financial support for debt that's taken on for college. Lots of ideas there. I think that's really important. The other aspect though that I think we need to change is that credentialing mechanism of higher education and I think there's an alternative, and again, this is the part that sounds crazy to use crypto, not in the world of money, but in the world of credentialing. Basically making, solving a problem of distributed trust through a decentralized means of credentialing that takes credentialing out of the hands of colleges and universities where I don't think it should ever be, and placing it into a decentralized approach to, you know, what about your life, can you share with other people to show what, this is my resume. This is who I am. So that's the crazy part. The less crazy part is changing the way we use tax code and, and public finance to change this. What comes out of this, I think is not, I mean, I'm a beneficiary like you of this credentialing system. I don't want to lay the University of Chicago low. I don't wanna lay, you know, my grad school of Harvard low. I don't want to wipe them out. I want to return them to an institution, not of credentialing, but of education and research. That's the old story. I think we can return to, if we take the credentialing role out of college and we change the financing role of the tax code and public debt, I think we do that. I think we can find that old story, that old song of how education can lift an entire nation.

David Greely (46m 01s): Thanks again to Ben Hunt, Author of Epsilon Theory and Co-Founder and CEO of Second Foundation Partners. We hope you enjoyed the episode. This concludes our series of Smarter Way on Smarter Markets. Join us next week when we return to the Carbon Markets with our new series, Carbon Frontiers. Our first guest will be David Shukman, Former Science Editor of the BBC. We hope you'll join us.

Announcer (46m 25s): This episode has been brought to you in part by Base Carbon. The trading of carbon credits can help companies and the world meet ambitious goals for reducing greenhouse gas emissions. But how do we judge the quality of these projects and how can we ensure that our investments are creating real value? At Base Carbon, we are focused on financing and facilitating the transition to NetZero through trusted and transparent partners. It's time to focus on what's important. It's time to get serious on carbon, learn more at basecarbon.com.

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