Stimulus and Equities, Working in Government, Detecting Bullshit
What Happens Next – 8.8.2021

Larry Bernstein:

Welcome to "What Happens Next." My name is Larry Bernstein. "What Happens Next" is a podcast where experts are given just six minutes to present, and this is followed by a question-and-answer period for deeper engagement. This week's topics include stimulus inequities, working in government, and detecting bullshit.

Our first speaker will be Robin Greenwood, who is the George Gund Professor of Finance and Banking at Harvard Business School. I met Robin through my business partner, Mike Gorzynski, who co-taught a course with Robin at HBS. Robin has been responsible for organizing and teaching the corporate finance department segment of Harvard Business School's curriculum. Robin spoke twice before on What Happens Next. His first presentation was on streamlining the bankruptcy process during COVID, and the second one was on predicting financial crises. Today, Robin will discuss his recent research and how the government stimulus programs for COVID have led to rising stock prices. I want to learn from Robin what he thinks the current $1 trillion infrastructure bill and the additional $3.5 trillion Biden spending proposal will do to stock prices in the future based on his recent research.

Our second speaker is Bruce Tuckman, who is the former chief economist at the Commodities Futures Trading Commission, and is currently the Clinical Professor of Finance at the NYU Stern School of Business. Bruce and I were business partners back when we worked together at Salomon Brothers in the fixed income arbitrage department. My boss at the time, Rob Stavis, interviewed Bruce to be a quantitative analyst in our US Treasury and derivatives department to work with me. Rob asked me if I wanted to interview Bruce, but he said it wasn't necessary because he already knew my opinion on the matter. I was confused, because at the time, I had never met Bruce. I asked Rob what my opinion was going to be, and he told me I was going to love him. And as usual, Rob was right.

Bruce joined the independent government agency, the CFTC, the Commodity Futures Trading Commission, in June, 2017, where he worked as their chief economist for three years. This was Bruce's first position in government. And I've asked Bruce to tell us about what he learned working for an independent government agency and how to motivate a bureaucracy. I've entitled this session: "Tuckman Goes to Washington."

Our final speaker today is John Petrocelli, who is a professor of psychology at Wake Forest University. He is the author of the book entitled Life-Changing Science of Detecting Bullshit. I am really excited to learn about how to find out how much bullshit is out there and how to navigate that fine line between truth, lies, and bullshit.

Since the beginning of What Happens Next, I have commented on the Bureau of Labor Statistics monthly labor report. I do this because it is the most important economic statistic in the US and it is the best indicator to evaluate the health of the economy and the job market.

The employment report that was released on Friday was a whopper. The establishment survey showed a gain of 943,000 jobs which was above the street economists forecasts. There were also revisions to the past two months for an additional 120k.jobs.

The unemployment rate fell by 0.5% on the month to 5.4% with 8.7 million unemployed. This compares to over 16 million a year ago. Pre-Covid, in February 2020, when we were at full employment the unemployment rate was 3.5% with 5.7 million unemployed.

Here is what I thought was interesting in the detail of the report, college educated workers is basically at full employment at just 3% so future workers will have to come from the pool of less educated workers. And this month we saw pretty dramatic declines in unemployment among high school educated workers, African Americans, and teenagers.

The demand for labor remains on fire. The latest JOLTS data shows an all-time high 9.2 million job openings, which is double normal levels.

The dynamism of the labor market is really surprising to me. Over the past 12 months, 73 million Americans have new jobs while 65 million jobs were terminated. This is because many people switch jobs and often multiple times a year. The 73 million new jobs should be taken in context of the total 152 million employed people in the US.

The labor sector with the greatest improvement has been leisure and hospitality. This sector was the hardest hit by Covid and is now rehiring. Leisure represented half of all private sector increases in employment despite the rapid rise in the Delta variant. This sector still has 1.7 million fewer workers than pre-COVID so we should expect this sector to be where most employment growth comes from in the months ahead.

There are still millions of Americans who are not working and not looking for work. As Casey Mulligan has informed us on What Happens Next that the cause is substantial government payments that encourage low wage employees not to work. Workers' wages have risen 4% year over year and in the lowest paid group wages increased by 10%.

September ends the extra Federal unemployment benefits, so we will likely get a surge in low wage worker supply. I expect that these workers will get hired rapidly. It will be interesting to see if the higher wages and starting bonuses last when the supply of workers increases dramatically.

The number of people teleworking continues to decline. In May 2020, 35% of all workers teleworked, today it is down to 13% and is falling at about 1% per month. There has been a lot

of discussion about what is the new normal about working from home, and the numbers suggest that most people are going back to the workplace.

Our first speaker today is Robin Greenwood. Go ahead Robin.

Robin Greenwood:

Larry, thanks for the opportunity. I'm going to be speaking about some work with Toomas Laartis and Jeffrey Wurgler, who are both at NYU, and the work is called stock market stimulus. What we're interested in is the dramatic rise of the stock market between March of last year and today, in particular the role of government stimulus payments in generating that rise. Now, I'm not going to be focused on the macroeconomic effects of the stimulus payments, for example, through businesses, cashflow growth, and so on, but rather the direct effects of the stimulus payments, insofar as they ended up as flows into the stock market. So just to give you a sense of what's going on here, maybe the best starting point is to look at anecdotes from Reddit and places like WallStreetBets, if you were to peruse these places and see what people are talking about when they're speaking about different stocks. Back in April of last year, these are just some quotes, "Threw down my whole stimulus check on Roku and doubled it. God bless America." Then the next round of stimulus checks in January of this year, "Yeah, Pa, get your stimulus check and dump it into stocks." And then in March 2021, "I can't wait for my stimulus check to drop tomorrow and grab some more AMC." So certainly, people who were in the market for speculative stocks have been talking about the effect of the stimulus payments. So, the way that I'm going to talk about this is first talk to you about the overall structure and some of the timing of the stimulus payments, then talk about how we think about the investment of those checks, how much might've made its way into the stock market, and then give you some evidence on the link to overall stock market activity. And I should say one of the most challenging things here is that it's very difficult to draw a causal link between inflows and the overall market.

Our general approach in this work has been to try to focus on the most speculative stocks in the market, which we believe ended up getting the largest inflows during this time. The type of data that we analyzed were US Treasury and IRS news releases, discussion to Treasury officials, Reddit, Google, Google trends, requests on things like lottery spending and all sorts of interesting other data. Okay, let me first just take you through the overall structure and timing of the data, just to give you a sense. There were three sets of checks that were sent out on April 15th of last year, on January 4th of this year, and then on March 17th of this year. The first set of payments was approximately $300 billion, then $164 billion, and then $411 billion in the most recent round. Now, interestingly, you can really get in the weeds as to when the checks were sent out. And it turns out, especially in the first round, the government had some trouble getting the dollars in the hands of people. That being said, these days are roughly right in the sense that most of the money was dispersed right around these dates. The first order of business was really to establish how people say they use the stimulus check and then how people talk about the spending. And then we have some direct evidence on the spending as well. It turns out the Census runs The Pulse Survey, where they check in on US households. And

on weeks 12, 22, and 27, they asked households how they had spent or plan to spend the payments they had received from the government. In the first round, about 14% of them reported putting some of the money into savings and investment. In the second round, 15%. And then in the third round, 23%, as the economy was kicking up.

Also consistent with this is that if you look at overall discussion of, for example, the word stimulus check in WallStreetBets and other places, you will find them really picking up around the time of these checks. The most interesting piece of evidence that we looked at here was on data collected by Raj Chetty and his co-authors. And they tracked daily spending of individuals during this time. Low-income households, for the most part, pour the money directly into a retail and grocery spend. And you see very little of that happening for the middle-income households, suggesting that it either ends up in savings of some sort or elsewhere that we can't track. We looked at measures for the stock market activity. The first was order flow, so trying to figure out, where do we find patterns of retail demand? For example, particularly in, let's call it, the most Robinhood-y type stocks. And then the second was to look at the overall performance of these stocks during that time.

And one of the things that I'd never heard about that turns out that you can pinpoint retail order flow very precisely these days because of algorithms that allow you to figure out what the net price improvement is on a trade and only retail gets price improvement. And you can document that pretty clearly. Now, it turns out, so if you look around these windows, especially the first window around the stimulus check, the retail share of share volume really shoots up. You can also look at this retail volume in a bunch of different ways. I'd like just to share with you the numbers in terms of what happens to the overall returns during this period. On the April period last year, the most speculative stocks outperformed the least speculative stocks. Keep in mind, this is a very short window, just a few days, really, when we're tracking this, on the order of four percentage points. Then if you look in January of this year, it's on the order of three percentage points. And then in March of this year, on the order of one to two percentage points. I think the bottom line here is that we can find some evidence of the stimulus checks affecting the most speculative stocks. Having said that, the direct effects on these days are fairly modest. And our next order of business, and this is something that we've been investigating, is really trying to figure out whether there are any positive feedback effects that are really these checks being the first step in a chain of capital entering the stock market and juicing up valuations. And I think I'll stop there.

Larry Bernstein:

Thanks, Robin. The purpose of these checks was to help people get through a very challenging period. As a public policy matter, how do you feel about it when they use this cash and use it for speculation, whether it be a lottery tickets or AMC stock?

Robin Greenwood:

Sure, or gun sales or fireworks or things like that, which we also have some evidence on. I would say the good news is that there were a trillion dollars of checks, roughly, and our best estimate is that somewhere between $60 billion and $100 billion ended up in the stock market. And that's also just an estimate. But if you think about that, that means that more than 90% of those checks ended up back in the economy, which is what you wanted. Because both, it helps support the economy and small businesses, and also presumably meant that it was helping those households. And of course, if you look at data from Chetty and his coauthors, you could see that in the lowest income zip codes, the spending, even on things like groceries, dramatically jumps when these checks are deposited. I think as the glass is half full here. But with a trillion dollars being spent, there are going to be some pretty significant unintended consequences. And here, we think that magnitude is about $100 billion.

Larry Bernstein:

It's funny when in introductory macroeconomic classes, we're taught about Keynesian multipliers and how giving money to the poor, it's the biggest bang for the buck as it runs through the economy. Does this change your mind about that in any way? It's just not immediate that sometimes that some households or families choose to put the stock market first and then spend the money later. How do you think about this whole context of spending versus savings and investment?

Robin Greenwood:

It's a wonderful question, and actually one we haven't dug into as much as I would like. Let me give you just a back of the envelope way of thinking about it. I think it's one of magnitudes. If you look at the low-income households, it is true that, by and large, when they get the checks, they pump it back into the economy. If you look at the high-income households, they, by and large, save it, meaning it either shows up in a checking or savings account or it ends up in the stock market. Now, $100 billion, the question is, what's the multiplier on that on the overall market? And actually, it's not something that we can really answer directly using our evidence, but I can give you a sense. People talk about the overall elasticity of the stock market being five to 10. What does that mean? If you put up $100 billion into the market, it raises the overall value of the stock market by, say, 500 billion to a trillion. Now, you might say, "Geez, that's a lot. That's a much higher multiplier than I expected." On the other hand, in percentage terms of the value of the stock market, whether it's 30 trillion or at 40 trillion or 50 trillion, it's not particularly large. It's just a few percentage points. I would say this doesn't change my mind dramatically about the overall multiplier, but it's a provocative question that we should surely investigate

Bruce Tuckman:

Yeah, just a quick question for Robin. People who've investing in stocks with their stimulus checks, a lot of momentum in the market or whatever you call it over the last time, do you have an idea about whether the people that have gotten stimulus checks are putting more into the stock market than other people have and making that comparison?

Robin Greenwood:

I would say that's the primary weakness of our study is that we can't measure directly who's putting the money in. We can measure things like the retail order flow. We can use the zip code level data to get a sense of who's saving the money and who is spending it, but we don't have that detailed, household level data. And maybe one day we will get it and that will help us to answer your question properly. I think that part of our study is indirect. Having said that, triangulating between a whole bunch of different sources, we do have the sense that roughly about 100 billion of the trillion is ending up into the stock market.

Larry Bernstein:

A different angle. One of the great things about the stock market is it lets the business and investment community know where to invest money. If crypto is going crazy, that means we should mine more crypto. If IT is going crazy, we probably should start a new venture capital fund in that area. Even normal firms should do that. What's weird about these, as you called it, Robinhood-y names, is there's a sense that although the stock market is surging in price, let's say, AMC Theaters, most businessmen would not go out and build a new movie theater in COVID times, or even if COVID ends. How should we think about speculative excess caused by stimulus as a motivation for new investment?

Robin Greenwood:

Let me say two things on that. First, there's some amazing work by Tomas Philippon at NYU with some co-authors trying to really dig in over-time on the information value of the stock market, and trying to do, on a historical basis, answer your question. They did that work prior to this most recent, crazy period of excess, but I think it would be worth revisiting those findings. Second point is there are two types of investment. One is real capital investment, building movie theaters, as you say. The other is more of a form of arbitrage, which is AMC issuing more stock and essentially doing an arbitrage on its own securities. And we see historically, when valuations go crazy, we see a lot of arbitrages and we see a little bit of investment, which says that it's probably more benign than we might think, because it just means it's a transfer from essentially the smart corporations and ETF providers and money managers who are figuring a way to profit off of the overpriced asset than it is misplaced dollars, for example, you know, building new movie theaters in New York City.

Larry Bernstein:

In my intro remarks, I talked about these spending bills, but the spending bills are really different than a stimulus check. And its distinguishing feature is, here's some money, versus, we're going to create some jobs which will pay you money which you can then spend on whatever you want. And there's a delay as it gets its employment dollars into the stock market. But that being said, these are the two main ways to use Keynesian stimulus methods to kickstart the economy. How do you think about the proposed bill? The trillion-dollar infrastructure bill, and there's also talk of a $3.5 trillion additional spending bill. How will that work its way through the economy and into the stock market? And if so, how will that affect

different parts of the stock market? Will that mean that in the long run, this will be very helpful for the most speculative names? How do you think about this massive new increase in spending?

Robin Greenwood:

I think on the trillion-dollar package, my understanding is it is going to take place over a very long period of time. And it's quite large, but it is not nearly as large as the dollars that we've seen over the past two or three years. Now, again, maybe that's just putting things in perspective. Second thing I would say is I think what one would like to do is to figure out where the returns are going to end up, whether they're going to be returns on capital or whether they're going to be primarily returns on labor. If they are returns on capital, that will largely ended up in the stock market or certainly reflected in the stock market. If it ends up, for example, being largely construction dollars, then we're going to see it'll end up bidding up wages in particular segments of the economy. And there'll be a Keynesian multiplier associated with that. But then under the presumption that the Fed can get its act together and respond to any potential overheating, I think that at least has the potential to be neutral. But it's not an issue that I've studied in detail or thought about other than this question, which, as I said, is a really good one.

Larry Bernstein:

As a public policy matter, the ideas were to help our most distressed workers, our most distressed population and not help the wealthiest Americans. And yet what you described in the stock versus flow argument of cash movement is that what it results is this infusion into the stock market, which results in a five times multiplier on other stocks and increases valuation, effectively increases the wealth of the wealthiest Americans. Is there anything we can do about that so that we can help the poor, but not help the wealthy by a factor of five more than it was supposed to? How do you think about that as a public policy matter?

Robin Greenwood:

I think in the first round of stimulus checks, you're trying to get dollars into people's hands as quickly as you can, and you are okay with a bunch of slippage. I'll just give you an example. There was a huge controversy around this time that was all over the BD about stimulus checks going to dead people or people getting two checks and some people not getting them and so on. And I think you just have to treat that as a cost of doing business. Otherwise, how do you get the dollars out there quickly in that moment? I think once we're in March of this year, I think where we're sending out the third round of $400 billion, my personal opinion on it is that it wasn't particularly well-targeted and we should be much more careful in how we target these kinds of programs. Otherwise, we are going to be subject to exactly the critique that you just made.

Larry Bernstein:

It's interesting that these payment ideas came from originally the most progressive in America. Yang was recommending this when he ran for president. But it seems that it's been adopted

only in very peculiar times in order to get money out as a rush. But if we had more into this reverse income tax situation, where we were in the business of giving checks to our poorest Americans as a general ongoing matter, what have you learned that would either improve it or give you pause for such a program?

Robin Greenwood:

I think we've learned tons of things, not related to this particular work that I've told you about, but we've learned for example, that all of the state unemployment systems are not connected with the same IT system, so getting checks out is difficult. I think we have learned that if you give checks to the wealthiest Americans, they do end up in savings of some form. Last thing I would say is this period is quite different. In fact, I'll admit to just being spectacularly wrong in my thinking on this early in the pandemic, because what I had not anticipated was how united COVID would be for the Democrats and the Republicans, certainly on the issue of spending. The flood gates were opened very quickly. And even now, the most recent stimulus package, frankly, there was much less Republican opposition to this package than, for example, during the financial crisis, when it was very hard to get dollars into the economy. If you think about just the early months of Obama, it was just such a different climate and perspective on releasing these dollars.

Larry Bernstein:

Do you think the difference was, if you remember the debate about TARP, for example, what seemed to upset the Republicans was this was handouts to banks who made poor lending decisions. And what distinguished this time was the checks were going not to corporations, but directly to individuals who lost their jobs most likely related to COVID, which was not their fault.

Robin Greenwood:

That's exactly what I mean. I think that was what that was uniting. It was through no fault of anyone's that these households and small businesses got in this situation. By the way, just as a side note, I would say even the most recent round of these checks has been very poorly targeted. For example, there's this program called the restaurant revitalization fund, and it turns out the formula for how they sent send money to restaurants... This was only over the past couple of months, is that it is the 2019 revenues minus any dollars that were sent to that restaurant through these programs last year. So essentially, they're reimbursing these restaurants and making them whole on all revenues, even though they had less costs, the landlords often cut them a break on rent and so on. You could probably pick examples where that made sense, but in general, as a public policy matter, that just seems like a very poorly designed and poorly targeted program.

Larry Bernstein:

Robin. we had you on a show in April 20210 about streamlining the bankruptcy process. And there was an expectation throughout the community that we were going to have a lot of bankruptcies, but it doesn't appear that we had many. Why were there so few bankruptcies and what can we learn from that?

Robin Greenwood:

I think we still need to do a full accounting of what happened. I think two main forces, one is that there was an incredible stimulus program that we've been talking about today, and that saved a lot of these businesses. The second is that you made note of this actually in your introductory remarks today, businesses are much more fluid. They start and stop all the time. I think what I was surprised by was that the businesses were able to start, stop, and then essentially restart in exactly the same form. I think that was quite different from the ordinary, let's call it the ordinary flow of capitalism, where businesses go through hard times, then they shut down and then a better business restarts in its place. This was fairly surprising to me. The exact magnitude of these different forces still to be worked out, but there's tremendous learning. And maybe there's even a third force, which is that we've learned how creative and resilient American businesses can be in face of these challenges.

Larry Bernstein:

And I would add the incredible resilience in the labor markets as well.

John Petrocelli:

Growing up and my entire life, I've heard people from outside of the United States, Europeans, people all over the world, say that they work to live. But they often get the impression that Americans live to work. And I've never been so sure about that. Do you think that the stimulus package and the variations and people going back to work or not going back to work, speak at all to that belief in any way?

Robin Greenwood:

John, thank you for the question. I thought about this issue, about whether our overall social contract in the United States is being rethought. And perhaps because of the shock of COVID, perhaps indirectly because of COVID, because of what is done to the labor market, particularly on the low end of the wage spectrum. I don't know the answer to that. I think it's certainly possible that it has changed that. I worry a bit about over-interpreting based on what's happened on the high end of the income distribution. If you speak to people of tremendous means and income or wealth, they will say things like "I'm going to rethink the way that I live my life, the way that I commute, all of these things." And I don't know how far down that translates down the wage spectrum. I suspect much less, but I'm not sure. It's a very interesting conjecture and it'll take the next couple of years for us to figure that out.

Larry Bernstein:

Okay, Robin, thank you. Our second speaker is, Bruce Tuckman who is the former chief economist at the CFTC, the commodities futures trading commission, which is an independent government agency. Bruce is a finance professor at NYU. And I'm very interested in learning

from Bruce, what it was like to move from the private sector to an independent government agency. Bruce, go ahead.

Bruce Tuckman:

Thanks, Larry. So having spent all of my life in the private sector, the thing that struck me the most about my time at the CFTC is how much power and discretion an independent agency has in its work, and even more so how our system of government is designed to try to check that power and discretion. So, first of all, what makes an agency independent? The answer is actually different for different agencies, but for the CFTC it's the fact that the commissioners are of course appointed by the President, confirmed by the Senate, but then they cannot be removed, except for cause, unlike the head of the treasury, the president can fire at any time. That's the first thing.

The second thing is that the CFTC rules have the force of law, but they're not reviewed by the White House. They don't go through the White House the way the department of labor regulations would do. So as a result, the agency, in particular a chair who manages the staff, has enormous amount of discretion. What do I mean by discretion? Well, what rulemakings you're going to take up. The Dodd-Frank rulemaking, for example, took 10 years at the CFTC and the SEC and other independent agencies is actually still going on Dodd-Frank. There are a lot of choices you can make along the way. Another part of the discretion is how to interpret congressional statutes. There's a lot of discussion in the courts about that and I'll talk about that in a minute, but how do you interpret what Congress told you to do? There are also no action letters, which is a lot of what an agency does, which is say, "Hey, in a particular situation, a particular actor doesn't have to follow this rule on a temporary basis or on a permanent basis because their situation is slightly different."

And then finally, where to focus enforcement? In a world of limited resources, choices have to be made about which cases are going to be brought against people who are violating the rules of the agency. What are the checks on this very broad power and discretion? I'm going to list five checks. The first one is Congress. Congress can drag the chair in and ask questions and hold hearings, which of course, depending on what their views are, can be pleasant or unpleasant. Congress also sets the budget each year for the CFTC. Now, this is actually less of a check for other agencies. The SEC, for example, has its own sources of money from fees from the industry. And the Fed of course has its own revenue making machine there. But for the CFTC, that was a check because they had to ask Congress for money every year. The only thing I would say about that check is not all issues rise to Congress' attention that to be certain kinds of issues that it's going to get Congress to think about things like that. The second check is the fact that there are minority commissioners. There are three commissioners from the parties, the present president and two from the other party. So non-controversial rules are just going to pass through an internal process. Every commissioner is just going to sign off and it's done. It has the force of law. But any commissioner can refuse to go through that process and force a public meeting and a vote on the rule and the minority commissioner can dissent publicly. And that is a great incentive to negotiate and compromise and come to the right place. I was impressed that this is an extremely big deal, and this is prevailed personal opinion, why I don't

like the single commissioner structure at the CFPB because you don't have these other commissioners who are very involved in the issues who can get up and dissent publicly.

The third of the five checks I want to talk about, and this is something I knew nothing about it before I entered government, is the APA or the Administrative Procedures Act. There are a whole set of rules about making rules. There are two types of lawyers at the CFTC. There are the securities law lawyers who worry about securities law. And then there are the APA lawyers who are all about how you go about making rules. And I'm not a lawyer, so I'm sure I'm not going to get this a hundred percent right. But the basic idea is rules have to come from reasoned decision-making. They can't be arbitrary and capricious, which is one of the legal phrases. And this is reviewable by courts. The courts can decide if a particular rule follows these criteria. And there's a big debate in the legal profession, which I'm not super qualified to talk about, about how much courts should defer to agencies when they make the rules. And another part of the APA, which is very important, is that when an agency is going to make a rule, it has to make a proposal, give notice that it's thinking about making a rule, open up the proposal for public comment. And all serious comments will be read and will be addressed in the rulemaking. If anyone on this call has a view about something an agency is doing and they write it, it's almost a hundred percent sure it's going to be read and extremely likely it's going to be addressed in the final rulemaking.

The result of that rulemaking takes a lot of time. It's particularly difficult for a new administration to come in and reverse course from a proposal that's already existing. How do you make the argument that, "Hey, this agency stood before the public and said, this is the most sensible thing to do. And now you're doing something completely different." And of course, every administration has a limited amount of time in which to do things. The fourth of the list of checks I want to talk about are cost benefit considerations. Rules under certain statutes, like the commodity exchange act, which is what the CFTC works with, require cost benefit considerations. When a proposal is made, you have to list out all of the costs and benefits of what's going to be the effect, the impact, of this rule. You don't have to weigh them one against another, but you have to list them. And a rule can be challenged in court if important cost and benefits are omitted. Now interestingly, cost-benefit considerations are not required of all statutes. For example, a bank holding company act does not require a cost benefit considerations and rulemaking under that act. And that's where the Volker rule lives. The Volker rule didn't have to do that as a lot of other Dodd-Frank rules had to do. And then the final check, the fifth and final check I want to talk about is, civil servants. So civil servants have lots of protections. A new administration, as existed in the founding of our country, the new administration can no longer come in and just fire everyone and start from scratch. There are also detailed procedures for hiring senior civil servants to prevent what's called burrowing. And that's a word I did not know, again, before joining the government.

And that's when political appointees try to hire senior civil servants, sorry, try to hire other political appointees as senior civil servants. And there are a lot of procedures to prevent that

from happening. I, for example, was not allowed on a particular hiring committee because I was a political appointee. Civil servants that I bumped into and worked with responded very well to direction from the CFTC chair, recognizing the new administration. Here's what the chair wants to do. And that chair's confirmed by the Senate, we should do that. But of course, in theory, it's possible for senior servants to have their own agenda or to slow walk any particular administration. Larry, those were most of my prepared remarks.

Larry Bernstein:

I wasn't planning to talk about this, I wrote a public letter to the CFTC about a rule change. Here was the background, the CME wanted to change the definition of an existing Eurodollar futures contract.. Previously the CME defined LIBOR, which is this a London interbank offering short-term interest rate. And The CME asked 40 banks to set the rate and the CME was going to replace it with the BBA rate, which was the British Bankers Association's LIBOR rate which was an average of 16 banks, after dropping the four highs and lows and leaving it with just eight banks. I wrote a letter with Marcy Engel, the general counsel at Salomon, to the CFTC saying that you can't change an existing contract. And that the rule change was opening up a possibility for abuse and cheating for the LIBOR set rate.

And I wrote that letter with Marcy in 1996. And then sure enough, there was a LIBOR scandal that was caused by cheating in 2008. But when I sent that letter to the CFTC, asking them to look into the matter and put in the public discussion, there was an expectation from my work colleagues that very little would be done. And in fact, nothing was done even though eventually I happened to have been right on that issue. How do you think of that process working? Why do you think that if people write letters to an independent agency who are in industry, who actually know a little bit about what's going on, why isn't that stuff taken seriously? Why should we think that is an effective check on the agency's discretion?

Bruce Tuckman:

From my experience, Larry, there were some crank letters, but putting that aside, all letters that come in are read. In other words, a proposal goes out, there's a certain notice and comment period that passes, then letters come in and the people who are in charge of that rule-making do read all of the letters and they send out a memo that describes what categorizing letters and what they say and what the arguments are, and then address those in the final rule-making. A lot of people joke, and this is also something I didn't understand before I was there, a lot of people about big rule-makings on that there's several hundred pages, all of these rule-makings. But the truth is the rule itself is actually quite small. The rule might be 30 pages, and then it might be 200 pages of discussion, which includes things like the summary of the comments and responses, if any.

It's not that they're going to necessarily listen to you or give weight to what you say, but they will have read it. And if they think it's material, they will address it. And that's all you could ask for to be heard. It's not that you can... Now, of course, there's also this notice and comment period includes groups of people, whether it's banks who are affected, whether it's public

interest groups who are affected, their various consumer groups will come in. After a proposal has been made and the notice period is finished, people can come in and face the people who are doing the proposals and talk about them. And it's not that hard to get an appointment. One thing my first week or two people said, "We're the government, our job is to listen. We're supposed to listen to when people come with comments." My experience is that process happened. Even as an individual, if you want a meeting with the people who are writing the rules to make your points, I believe that will be scheduled. Whether you get your way or not, is a completely different question.

Robin Greenwood:

Bruce, Robin here asking a question. I would love to get your take on how effective cost benefit analysis is with respect to rule-making. I've often found that, especially in financial matters, it's not about... We're not asking a factory to make an investment to curb pollution. But in financial matters, just as an example, suppose you were to ask a bank to increase its capital overall capital ratio. It seems like the costs and benefits seem very difficult to measure. And I was just wondering in your experience, how effective and on-point you found the cost benefit analysis.

Bruce Tuckman:

Excellent. That goes to the heart of the matter. The answers are that in some places we have data in some places we don't. One of the difficulties with Dodd-Frank rulemaking is you're moving from one set of managing the derivatives markets to another. And how are you going to do any analysis on that when there's no data? But as the years have gone by, more and more data are available to the CFTC. For example, when the first Dodd-Frank rules were passed, there was no data at all about swaps trading. Swaps hadn't been reporting. But then in, I think it's 2014, data started to be collected. When you had the next round of rulemakings in 2018 or 2019, there was a lot of data around to say, "Hey, this is who's trading what and this is at what prices. This is how the markets have reacted to this."

Bruce Tuckman:

There was a lot to say. It really does depend on the situation, but I think it's still... I think it's still a good discipline to go through and try to do with whatever data you can. Let's take another example, like position limits has been around for a long time, but we have a lot of data on that. It's a very tricky rule-making in a lot of ways, but we do have data. Robin, I think the answer is there are some places we have a lot of data at some places we don't, especially conceptually when we're changing the way things are done dramatically, it's hard to do it. But I'll also give one other kind of data that's available. Let's say like a capital, which I think you mentioned, we can at least try to figure out how the rule will affect people. How much extra capital would be in that example? Or we tell people have to behave in this way, how many people will be affected by that rule? One of the larger contributions I made actually when I was sitting in that seat was that these new margin rules were coming into place. Dodd-Frank requires that you either clear, or you have to post margin on uncleared trade. And there were a few rounds of companies, large companies, starting to post margin on their unclear trades. And then there was going to be a time when a lot of smaller entities needed to do it. And the industry was kind of going

crazy. They said there were just too many entities that need to do this at the same time. There are only a few people to work out the documents, only a few people to be collateral services, et cetera. And we had the data to go through and see exactly how many it was and what options were available to the agency. If you, do it this way, you can make the effect more gradual. So again, Robin, you're exactly right. But I would say that there is a whole spectrum of things that we can say and things that we cannot say, but I personally thought that discipline was useful to have in place.

Larry Bernstein:

Bruce, how do you motivate the bureaucracy to achieve the political party's goals. I just imagined that there's these lifetime workers and then there's workers like you who are there for a couple of years to get some stuff done, but they know they're going to outlast you by decades. How do you successfully motivate them to achieve your objectives?

Bruce Tuckman:

So let me just make the question a little harder before I try to answer it. I'll make it a little harder by saying I had never really worked with the civil servant protections and also in a union shop, which the CFTC became actually during the early stages of Dodd-Frank rule-making. So that's another thing that you have to get used to, and I would say I really do think people say, "Oh, it's so much easier in the private sector because the private sector, it's only money. And if you pay people money, they'll go do things." But I've found in my experience, it's not actually true. People are motivated by a lot of things. Of course, money is important in the private sector, but there are other things. In the agency, just for example, giving people time in front of the commissioners when they have something to say, of course, letting people present at public meetings.

Bruce Tuckman:

There are a lot of things that people want to do and feel like they're contributing to what the commission is doing and what government service is supposed to be like. There are the ways to motivate people aside from what we in the private sector immediately think. I also think that there... It's not universal as I think I hinted at, but it's a little different feeling working in government for a chair then is working for your boss in private industry. But you worked for your boss in private industry and the idea is, "Oh, that person's there now, but who knows, maybe there'll be knocked off. Maybe they'll be knocked off soon. Maybe they'll have an unsuccessful time. Maybe something will happen." And their authority is kind of dependent on what you think their prospects are and how they'll help you. And it's different in the public sector because the chair and the other commissioners were appointed by the Senate. And that gives them a power and authority that's quite strong. And I think most people who are in government feel that keenly and are not nilly willy willing to replace their judgment with the judgment of a Senate confirmed appointee and chair. The only last thing I'll say is, I think it's hard to say, but it's just the general management thing, which is you've got some people who are willing to work and you've got to figure out the way to motivate them. And some people are not willing to work. And you have to decide as a manager how are you going to deal with that. I

don't know that's so much different in the public and private sectors. And again, I don't have any private sector experience in a union shop or, again, with civil servants where firing is so much more difficult.

Larry Bernstein:

George Stigler won the Nobel prize in economics, and one of his major ideas was that government agencies could be co-opted by industry even though these agencies were meant to regulate industry, it turns out that industry is very good at co-opting these agencies to work on behalf of them to create monopolies and benefits to existing firms. How do you think about Stigler's work after your time in an independent agency?

Bruce Tuckman:

That's a great point too. And I have thought about that a lot. The people in the agency do very well to follow markets and what's going on compared to most people in the universe. They know what's going on in markets. There are specialists. If you want to know about what's going on in cattle, if someone will sit down and talk to you for three hours about what's happening in cattle markets. There's a lot of knowledge in the industry, but that's not exactly the same kind of knowledge of someone who was sitting in trading all day. It's different, right? I mean that people think government will have a better idea of institutional structure in which you worked, but the trader will know more about markets, et cetera. the problem is that you're making rules about this industry, but the people who know the most about it is the people in the industry. If you want to do your job well in that seat in the government, you have to go and you have to ask the industry questions and ask what's going on. And you have to take everything appropriately, listen to what they say, but realize where people are coming from and what their self-interest is. I will say also there are a number of entities that are designed to represent consumers or people not in the industry, also all these end-user groups, et cetera, but it is true that I think the people you're talking about "capturing the agency," those people are kind of better funded. They've got more people. They've got full-time people coming in to talk to the agency all the time.

Larry Bernstein:

They really know the implications of these rules?

Bruce Tuckman:

Right. To me, the real tension is how do you navigate really wanting to understand what's going in the market and not over-weighting the opinion that follow from those facts, from the people who are coming in. The chairman who appointed me, Chris John Carlo, I really admired him in a lot of ways. And he went around saying that he is market friendly not industry friendly. I think is something that was something that you have to aspire to. But again, the knowledge thing is just tricky and you have to work to navigate that. But I will say just, maybe just to finish up, I did not feel that the people in the agency were bullied. They stood their ground when they believe something. When people came in, they asked questions, they wanted to learn, but I think they on the whole they held the line where they thought it was important to do so.

Larry Bernstein:

You opened your talk by talking about discretion and power and that these rules are very vague and the people in the agency could sort of do what they wanted or follow what they thought was right. And there were all sorts of checks on those power, but at the end of the day, it's really about discretion. How should we think about vague rules and discretion when the power is so great in the hands of so few?

Bruce Tuckman:

These are all great questions, Larry. Why don't I just give one example that we can talk about it in the context. Dodd-Frank says that swaps have to be traded on swap execution facilities, some sort of exchange. The statute says the trading has to be done by multiple participants by any means of interstate commerce. That's what the statute says. The early years of Dodd-Frank rule-making, the CFTC interpreted that to mean that these SAFs, these swaps execution facilities, have to set up a central limit order book, or they have to have a request for quote from three dealers.

Or they have to have a request for quotes from three dealers. I'm not going to get into what those things are, but those are very, very specific kinds of trading mechanisms. The question is, well where does that come from? The statute said any means of interstate commerce and you have those things. And that is the CFTC rule now, by the way, and I don't think that's being challenged anymore. But that's an example of a few things, right? It's an example of Congress deciding not to get into the weeds and not make that tough call about what it meant. So general things they want to do about swap facilities, but they didn't go into the weeds of the statute. So how far should they go? A lot of people, and I don't know if I know enough to really have a strong opinion myself about this, but a lot of people think that Congress sends way too much to the agencies without being specific enough laws. So, the fault is not the agencies. They get this broad thing, and they need to do something they do that they feel is in the spirit of the statute. But it's sort of Congress's issue that they haven't been much more specific about things.

Larry Bernstein:

I want to ask a question now about this Chevron decision. There was a Supreme Court case, I think Scalia wrote the majority opinion in Chevron, but the idea was that Congress can delegate to the bureaucracy to do rulemaking. It almost appears to be almost lawmaking. And then there's been significant pushback in the courts against Chevron, to your point, pushing rulemaking back to Congress and getting discretion and rulemaking away from the agencies. And I think Kavanaugh and Gorsuch are the leaders on the Supreme court in this opposition to Chevron from a constitutional perspective. What were the thoughts inside the agencies about Chevron coming under attack?

Bruce Tuckman:

I'm not a lawyer. I can't be too specific about Chevron. I think about Chevron as, how much you will defer to the agency's decision about interpreting statutes? How far can they go in some sense and still be judged to say, hey, you're following Congress's will? And the only thing I would say is I think the agency is very sensitive. They don't want their rules overturned in court. And that has happened. It's happened to both the SEC and the CFTC on certain matters.

And that's why they have the army of APA lawyers, because they don't want that to happen. That means that there's always an APA person on a rulemaking to say, "Hey, we have to address these comments. We have to address Larry's comment on this and this, or we're going to be in trouble in the courts." Or "We have to establish this fact. It's not enough to go say it. The analysis has got to be stronger here and there." The agency is very sensitive about that. So what Chevron is doing is it's kind of changing a little bit the work that needs to be done to get the proposals to pass muster should they be challenged. But I don't remember anything particular about people viewing how that line is going to shift. Take the CDC's eviction rule, extending the no eviction period. And the thing that I found striking about that episode given my experience is that the CFTC, was just how incredibly concerned about being overturned, whereas this CDC eviction was very different. This was saying, yeah, it will be overturned, but we can push off the date in a way that will benefit the public interest. So that's a very different kind of calculation. It's not the point of this call to decide if that's right or wrong, but that's very different from saying, "Hey, we can only do things that are going to survive a challenge in court because that's the extent of our power."

Larry Bernstein:

Well, when you distinguish that, in this example, it went all the way to the president, and the president decided to act on this sort of thing. The agency itself wasn't on the line so much as it joined an executive political decision.

Bruce Tuckman:

I don't think I agree with that, Larry. I mean, again, in the CFTC, the president can't order the CFTC to do something, that's not the way the system works. And I try to give the feel of all the processes we have, and the agency has to put together a rule by rule. There are rules in making rules, and those have to be followed. And if the president comes to agencies to say, "Hey, you've got to do something." Say, "Well, no. We got to follow these APA rules." There's no exception to the APA rules from a direct mandate from the president. I'm not a lawyer, but that's the way I see it.

Larry Bernstein:

. With that, I'm going to move on to our final speaker, John Petrocelli, who's going to talk about detecting bullshit.

I want to open up by saying that approximately 15 years ago at book club, I had philosopher Harry Frankfurt from Princeton, speak to my book club about his book entitled On Bullshit. And it had a very dramatic effect on me and my philosophy on thinking about bullshit. And it did for John as well. And John has dedicated a substantial portion of his research and thinking about Frankfurt's work and its application. John, I very much look forward to hearing from you about how to detect all that bullshit that's out there. Go ahead, John.

John Petrocelli:

And I'd like to talk today a bit about how our world is simply awash with misinformation, disinformation, fake news, hoax news, fabricated news, inaccurate news, spin, and deception. And a common thread through each of these sources is a pervasive and insidious communicative substance that we commonly refer to as bullshit, which is not just a cutesy or intentionally provocative word, but now a technical term as used in philosophy and psychology to signal that something has been communicated without regard for truth, genuine evidence or established knowledge. And bullshitting behavior is often characterized by the use of rhetorical strategies designed to disregard truth, evidence, or established knowledge, such as exaggerating one's knowledge, their competence or skills, or talking about things of which one knows little to nothing about in order to embellish or impress others, fit in with others, influence or persuade others, or to confuse or hide the fact that one really doesn't know what they're talking about.

And the worst outcomes of bullshit communications are false beliefs and bad decision-making. A surprisingly, a disturbingly large percentage of really smart people believe that storing batteries in the freezer will improve their performance, that you can see the Great Wall of China from space, that people who own cats live longer than people who don't, that wines become finer with age, and that diamonds are a sound investment, but none of these things are actually true. In my research, I found a very big problem, and that is that most everyone thinks they can readily detect bullshit and thereby feels unaffected by it, despite research clearly demonstrating that bullshit is not easily detected. And no matter how smart we believe ourselves to be, we're all susceptible to bullshit. In fact, research shows that people who are most confident in their ability to detect bullshit are often the least capable. And this is because the mental skills that one needs to be competent in something are often the very same mental skills one needs to recognize their own and others' competence in that domain. But fortunately, there's a more scientific basis to this whole thing, and we can approach it as such. And this kind of rational method will help us actually understand and overcome bullshit more effectively.

Bullshitting is sometimes confused for lying, but there are critical differences between bullshitting and lying. Liars actually know and care about the truth, and a liar's agenda is to detract us from the truth altogether. Liars also don't believe what they say. Bullshitters, on the other hand, often do believe what they say, but they don't know what the truth is. They don't really care. They aren't even trying to know. And in fact, sometimes by chance, bullshitters say something correct, but even they wouldn't know it because they aren't paying attention to truth, established knowledge, or evidence for their claims. If I said to you, Pluto is a planet, and

I know perfectly well that it is not, then I'm lying to you. However, if I said, Pluto is a planet without any care for its truth such that I don't even know if it's true or false, then I'm bullshitting you. Now, like most people, you probably believe that bullshit is harmless and, if anything, less insidious than that of lies. Besides, no one is harmed when our uncle claims that in 1982, he was capable of throwing a football over a mountain. And if bullshitting children that a special compound in the swimming pool water reveals the presence of urine helps to prevent such unwanted behaviors, perhaps some bullshit is even beneficial to society.

Yet the notion that bullshit is completely harmless just isn't so. Some bullshit clearly has harmful potential. For example, "Did you see her face. Who would vote for a face like that?" This sort of bullshit is just plain bad. It degrades, it objectifies women, and suggests that women can't be good leaders unless they're attractive. Furthermore, some bullshit is dangerous because it is able and very likely to cause harm. For instance, "I can text while driving without any effects on my performance. You know that everybody does it. I don't see the problem." No, no, no. This bullshit is this is not only incorrect, but it promotes a flippant attitude toward compelling evidence that suggests otherwise, and a belief in it can cause direct harm to society writ large. My research suggests that bullshit can have several negative effects on memory, attitudes, and opinions, and most importantly, decision-making. Bullshit affects these things because it impacts what we believe to be true, and what we believe to be true is fundamental to human behavior.

Bullshit-based beliefs can come with great costs. It's not only the stuff of unreasonable markups that we often pay for used cars, real estate, wine, jewelry, and so many other things. It's the stuff of Bernie Madoff's success in swindling billions of dollars from even the most experienced financial experts with his Ponzi scheme. And it's the stuff underlying the protocols of China's great leap forward under the direction of Mao Zedong, which resulted in the deaths of 36 million people from starvation. It's the stuff of Andrew Wakefield's fraudulent research that has led to the well-debunked assertion that the measles, mumps, and rubella vaccine causes autism in children. And it's the stuff of senseless conspiracy theories that compel people to storm their own country's Capitol Building in hopes of reversing a fair election.

From 10 years of empirical research on the topic and speaking with hundreds of expert bullshit detectors, I'm convinced that all of our problems, whether they be personal, interpersonal, professional, or even societal, are either directly or indirectly linked to mindless bullshit reasoning and communication. Most people are susceptible to the unwanted effects of bullshit because the mental skills that protect them from it do not come naturally. They must be trained. And part of being a good bullshit detector involves recognizing when and under what conditions we are likely to encounter. And that is what my research has been about.

Larry Bernstein:

Thanks, John. The philosopher Harry Frankfurt talks about that the trouble with bullshit, is that it's insidious to institution, it corrupts from within, and that an institution itself needs to find ways to call out bullshit. In any organization, there's plenty of bullshit. Whose job is it to detect

it, call it out, and remove it, and why are certain institutions more tolerant to bullshit than others?

John Petrocelli:

I'll start with the latter part of that question. One of the reasons that we're so tolerant of it is because we don't expect it to have a negative effect on our thinking, our reasoning. We assume that it's harmless. We don't even talk about bullshit in the same way that we talk about lies. I mean, you and I might be sitting on a porch, and maybe Robin and Bruce come by and say, "What are you guys doing?" And we might say, "Oh, we're just sitting out here bullshitting," right?

But we wouldn't say, "Oh, well, we're sitting out here lying to one another," right? And the social reaction to the two different forms of behavior is completely different. If someone lies to us, we're usually pretty angry. We have a lot of disdain for that behavior and there's a large asymmetry in the trust ratio. Now we usually give people the benefit of the doubt. We assume that new people that we meet are honest and trustworthy. But a single lie, now we can't trust them. Now we need at least 100 or 200 instances in which they tell us the truth to regain that trust and an expectation of honesty. That asymmetry isn't as great with bullshitting. Usually, we give the bullshitter sort of a social pass of acceptance. We say, "Oh, Larry's just bullshitting us." And we think that it doesn't have an effect. But my studies show that that that's clearly not the case when you focus on what people actually believe to be true and what their attitudes and opinions are. And those two things are absolutely fundamental to decision-making. So that's one of the reasons why we tolerate it so much.

And then the second reason for the former part of that question is that the communicative culture that we live in today is not practiced at calling bullshit. And if we don't start at the top with leaders, managers, people who are actually managing people and gaining information, important information that often comes in the form of explanation, and explanation, we know, is often counted as if it is evidence, right? But evidence and explanation are two totally different things. Evidence is something that supports a claim or an assertion. It's something that demonstrates. It verifies. It supports that idea. Evidence may be a bunch of reasons for why you believe what you believe, but rarely does it come in the form of hardcore, boots-on-the-ground evidence that supports the claim. And as we continue to just accept that and forget the important difference between those two things, we're very unlikely to call bullshit when we see it. And until we sort of create a communicative culture that encourages evidence-based communication and evidence-based reasoning from the very top down, I think we're going to continue to keep piling the bullshit on and making decisions based on this stuff.

Larry Bernstein:

I want to give an example you had in your book, and it related to when you go to the wine store, comments that are listed under a given bottle of wine. Sometimes it'll say something like chocolatey, hint of blackberry with a coffee aroma. And, you know what that is? That's just

bullshit. It's bullshit because if we ask a group of different wine tasters, they would not come up with the same result. What do we make of that kind of bullshit?

John Petrocelli:

Well, it certainly has a big effect on what people purchase. I mean, and at the wine shop, people want to purchase something maybe special for an occasion or something that they're going to like. And they assume that wine sellers have tried all of the wines, the thousands of wines in the shop. If you talk with people who sell wine, usually they don't know much more than your common shopper at the shop. They will pretty much buy anything that you suggest, if you say, "Oh, this wine goes well with fish or steak," they believe it. And the words that are used, I mean, everybody wants to drink, it sounds fun to drink something that reminds you of a cozy cottage in a winter storm. But the language, we refer to this type of language as pseudo-profound.

A lot of this language that you see in wine, you also see in corporate gibberish and in business speak, I mean, words like bandwidth and leverage and win-win and all of these types of words that are sort of, they're kind of ambiguous fillers that make things sound more profound and more impressive than they actually are. They're not helpful in decision-making. But people expect them, and they react to them as if they're cardinal truth. And it's just something that continues to proliferate, not only in wine, but I mean, if you switch to any industry, whether it be automobiles, jewelry, real estate, I mean, they all have their own special language, and people are expecting of that language. And it does move us. But when you track back and say, well, what does that actually mean? What does it mean for this to be a win-win situation? You often find that there's really not much evidence for it. Maybe it's a win for one person, but not the other. If you think about things from a critical thinking standpoint and a scientific reasoning standpoint, you'll often find that the pseudo-profound language that you find in wine and almost any industry is really a lot of fluff.

Larry Bernstein:

We have a question from Jeremy Clorfene, he asks, "How would you distinguish in the world of propaganda, lying and bullshit? For example, Make America Great Again or for Obama, Hope and Change. How do you think of those sorts of propaganda as bullshit?"

John Petrocelli:

Well, obviously some propaganda is not grounded in truth, genuine evidence, or established knowledge. That's for sure. But not all propaganda is bullshit. If I give you a set of facts and I am concerned about the truth value, and they happen to be true and well-supported by the established knowledge and evidence, then that could still be propaganda, but I wouldn't categorize it as bullshit. But to the extent that you are trying to persuade and influence with things that have no connection to truth, then that would be propaganda that is bullshit. But there are many, many different motives of the bullshitter that have nothing to do with persuasion and influence, and what we might use propaganda for. There was a study done

recently with hundreds of employees within a number of companies. And they defined for the employees what bullshit was in the same definition that I've been using, and they asked, "Well, why would you do this? Why would you engage in this behavior?" And they found 36 different situations and reasons why people would engage in bullshitting. And what it whittled down to were two dimensions, one of which was status, so promoting one status and trying to appear knowledgeable and impressive and worthy of their position. And then the other is simply communal value, to get along with others, to connect with others, and to be part of the group. And that doesn't necessarily have anything to do with persuasion and influence. That's just simple connection.

But another important motive is simply to see what it feels like to say something and see what reactions are actually liked to something that you may not even really believe, but, again, has no connection to truth, established knowledge, or genuine evidence. And that's very different than sort of using propaganda to change attitudes and minds.

Larry Bernstein:

I mentioned before that, how can organizations call out bullshit, and I got a question from Jay Green. He asked the following, "We've had truth committees before in organizations, whether it be Soviet biologists or the Catholic Church, which had a truth committee that declared that, in fact, the earth was the center of the universe or was flat. How should we think about the dangers of organizations be truth seekers and calling out falsehoods or bullshit?"

John Petrocelli:

Well, certainly if decisions are being made with no attention to truth and reality, we're in a very big mess, which is typically, quite frankly, the case. And the reason for that we know from treasure troves of cognitive psychological research that people are typically reasonable when they have information that they fully consider. If someone is not motivated to focus on truth or connect their reasoning to truth, established knowledge, or genuine evidence, really, I don't see much hope for that individual. But in general, people are usually reasonable thinkers. They'll take information that, that they believe to be true, and then they'll make general inferences from that. But the problem is that most of the data that they get, most of the information they get comes from their own personal or maybe even professional experience. And we're often prisoners of the confines of our personal experience. And that type of experience provides extremely messy data. The data from those experiences are often random. They're unrepresentative. They're often ambiguous, certainly incomplete, often inconsistent, indirect, second or third-hand, and often surprising are counter attitudinal, or not things that we necessarily want to be true or want to believe.

And when you're making decisions based on that kind of data, it doesn't bode very well for optimal decision-making. And it strikes me, as a judgment and decision-making researcher, it strikes me as a very odd thing for people to do. But again, people rely on that information, and

they rely on anecdotal from their personal experiences to justify the beliefs and attitudes that they have, and that's what they often feel, that's all they need.

Larry Bernstein:

I want to go to some very narrow definitions in linguistics and see if it upsets you or not. In Frankfurt's work On Bullshit, he quotes Wittgenstein about use of metaphor. I'll give you an example from my real world. Yesterday I went to my mom's house and helped her clean up the house. And I came home and I told my wife... She said, "Are you tired?" I said, "Tired? I feel like I've been run over by a truck." Now, the reality is I've never been run over by a truck. I doubt that I really felt like I was run over by a truck. I was embellishing and exaggerating how I felt. By your definition, it was clearly bullshit. But is it problematic, or is that just the very nature of language and metaphor?

John Petrocelli:

I think in that case, you sort of are hinting... When you're using a metaphor, you're hinting that you are at least open to the connection to truth because you're saying, "I feel like." And then if you follow that up at all, all you need is a single question. "Well, what do you mean by that?" Right? "Can you please clarify your claim?" And what we will find, that's one of the best questions to ask a suspected bullshitter, is to ask, "What is it exactly that you are saying?" And what you'll find is bullshitters will usually take a couple of backpedaled steps and start to clean it up right away. Because they'll actually listen to themselves and they'll realize, "Well, maybe that didn't sound right." And they didn't actually mean that literally. You're already exposing yourself to less bullshit if you just clarify the claim. Clarification is a major antidote to bullshit.

But if you follow that up then with... Let's say you're still following that. And he's like, "Yeah." And you're giving me something that still, you think that this claim can be supported. "Well, how is it that you know that that is true? By what sort of evidence supports your conclusion by that?" If you ask how, you will usually get what we call a concrete construal of the event or the situation, whereby people will be more likely to provide genuine evidence. If you ask, "Why do you feel like that, Larry?" Then a lot of times what people will provide is sort of an abstract level of construal, which gets at some of their heady values, and what you'll get is a lot of explanation. You won't get evidence for that. But if you get past how, then you can also ask, "Well, have you considered another alternative? Have you considered the fact that if you actually got ran over by a truck, we better rush you to the emergency room right now? Have you considered alternatives to your assertion or your claim?" All three of these questions will help you diagnose the individual's interests and their regard for truth, established knowledge, and evidence for their claim.

Larry Bernstein:

I want to bring Robin Greenwood into this conversation. But first, I want to read a quote from Harry Frankfurt's book On Bullshit. Here's the quote. "Why is there so much bullshit?" He writes, "Bullshit is unavoidable whenever circumstances require someone to talk without

knowing what he's talking about. Thus, the production of bullshit is stimulated whenever a person's obligation or opportunity to speak about some topic exceed his knowledge of the facts that are relevant to the topic. This discrepancy is common in public life, where people are frequently impelled, whether by their own propensities or by the demand of others to speak extensively about matters of which they are to some degree ignorant."

Now, the reason I bring up the quote is that Robin teaches a class at Harvard Business School, an introductory to a finance class where they use case studies. And at the beginning of these case studies, Robin calls randomly on a particular student and asks them to open up the discussion and present the case.

Now, most students try to prepare. But on the whole, now they're being called in front of the whole class to make a case. And I imagine because they don't know, they're generally ignorant of the facts that it requires a propensity to bullshit to the classroom. Now, everyone knows that they could have been called. They recognize the challenge that Robin has asked them to do. And to some degree there's an extensive amount of bullshit. And I wonder if this process, as you think, does that encourage bullshitting sessions, that we're training people to speak on their feet and to allow for the production of a bullshit

Robin Greenwood:

I don't want to give away too many tricks of the trade. But if my bullshit detector goes off, keep in mind that I have prepared for the case significantly more than even a prepared student. And if I feel like somebody... I call on an opener and they're not ready, I draw them out, and will ask follow-up questions such that it usually becomes apparent to the entire room that they're unprepared. And then they usually will, in 90% of cases, just two minutes in say, "I'm sorry, I didn't read the case." And then we move on. And that's not a great experience for them. And so smart people usually will make that admission earlier, rather than get drawn out for two minutes.

Larry Bernstein:

Well, I wasn't really thinking about kids that weren't completely unprepared. But to some extent you do prepare, but now you're being asked to go beyond your knowledge base. In any presentation, there's some truth seeking, and there's some bullshit. I don't think they're going to make complete falsehoods because they'll be called out on that. But there's a certain element of bullshit that's required to make the sale, like the used car salesman that John mentioned.

John Petrocelli:

Certainly, the obligation that people are supposed to have an opinion about everything, I believe has expanded in our information overload world. I mean, ever since the internet, we not only were expected to have opinions about all of the major issues of the day. The economy. Nuclear energy, voting, who should vote, capital punishment, all of these big issues. You're still supposed to have opinions about those things today, but now you're also supposed to have

opinions about whether or not Game of Thrones ended early, or whether or not people should be allowed to carry toy dogs in their purses. And if Kim Kardashian should or shouldn't be famous, and if her sisters should or shouldn't be allowed to digitally modify their pictures on Instagram.

The things that people seem to have, or feel obligated to have an opinion about, it's all over the place today. And I think that to the extent that people feel that obligation and don't feel as though, "Well, I haven't had a chance to generate a well-informed opinion about this, because I don't really know enough yet." You never hear anyone say that. It's very rare that people say that. If you take a look at the way debate teams are graded or rated in their debates... I don't know if you've looked at one, but more recently, what students will do in debate teams is in their five minutes they will rattle off as many arguments as they possibly can, sometimes 30 arguments and then if the opposition doesn't have a chance to debunk or counter argue all 30 of those, then the ones that are not addressed are just assumed to be true. And they're scored as points. And I think this kind of happens in our social discourse. Again, people have explanations for things that it's counted as logic incarnate truth, and ipso facto evidence, but it's clearly not. I think socially, we just accept that. And I think until we start using and recognizing the difference between evidence and explanation in our discourse, then I don't think we're going to get very far.

Bruce Tuckman:

Another thing I was very impressed when I went to the CFTC's Commission Meetings, when the commissioners were speaking. And I also had the privilege to sit in a few Supreme Court cases while I was in Washington. Those levels of discussion were miles above other things that you hear in the general political government arena. I don't know exactly what the cause of that is. It could be that the press is not standing quoting five sentences out of context, or they're not looking for a small thing. Maybe that's one, but there seems to be some settings where we can avoid a lot of things that John's talking about. But most settings we can't. And I don't know. I haven't analyzed what it is that makes a place conducive to serious thinking. But I did notice just a massive difference. You wished that more Americans would be tuned into those two places, compared to things they listen to all the time.

Larry Bernstein:

It's funny you should bring that up, Bruce. I attended a Supreme Court session once in my life. I was a guest of my high school tennis partner, David Hoffman, who was a Rehnquist clerk. And he got me a seat in the front row. And when I got there, Rehnquist turned to another justice, and said, "I'd like you to read an opinion." And it was Clinton vs. Paula Jones. And he said, "In a 9-0 decision, we vote for Jones, that Jones can go ahead with the lawsuit against Clinton, and then do a full investigation while he's still president." When I was listening to it, I was like, "Oh my god. I don't think they're right." So even though you're there and it sounds very sophisticated, they can still get the answers very wrong.

I want to go on a different path for bullshit for a second. And that relates to the application of fictional approaches in non-fictional settings. Journalism changed in the late fifties and early sixties with Tom Wolfe and Truman Capote. And I'm specifically thinking of Truman Capote's book In Cold Blood, where, in what appeared to be a non-fictional work, Capote put words and dialogue together, which was full fabrication. But it got to the gist of the matter. And ironically, in my own storytelling, my friend, Bruce Tuckman, who listens to my stories, he'll always say, "Larry, I noticed you were making up dialogue. And in all the dialogue, all the actors sound just like you, Larry. It's just inconceivable that your daughter would sound like that." Do you find it problematic in storytelling or in non-fictional settings where dialogue is fabricated, but in some ways what the author will tell you is, "Look, in storytelling, you just want to get to the gist of the matter? What do you want from me? I wasn't there." Or, "Who can remember exact dialogue?" Do you find that problematic?

John Petrocelli:

Yeah, I would, in terms of the weight that we give it. And if it's something, again, that supports or demonstrates, verifies a claim or assertion, that is paramount. That information should be weighted much more heavily than an analogy, sometimes of which is false. We call these things false analogies if they kind of fit the situation, but they're not quite correct. And people make leaps and bounds from them. And again, we would count them as sort of potential explanation, but they should not be weighted in the judgment and the decision as much as hardcore boots on the ground evidence would do. I mean, we also know that leading questions can change judgments. Even if you actually observed, if you were an eye witness to an event occurring, where two cars crashed. If I asked you, "Well, how fast were the cars going when they hit each other?" Versus, "How fast were the cars going when they collided?" Or, "How fast were they going when they smashed?" As I moved further away from, "They hit," the judgment of how fast they were going increases.

There are tricks that you can do with discourse or fictional analogies that can get people to think as though they've got an accurate picture of what actually happened, or the way things are, or how the world actually works. But when you critically analyze it, you'll see that the center often does not hold. And it's certainly not going to hold as well as finely collected, systematically collected data that goes well beyond anecdotes. I'm talking about hundreds of observations for basic claims and assertions, not just as a story, whether it be fictional or non-fictional.

Larry Bernstein:

Robin, what are your thoughts on the case study approach to truth seeking and the role of bullshit in that process?

Robin Greenwood:

That's a huge question. I think the main benefit of the case method approach is that students can wrestle with the problem, put themselves in the seat of the protagonist and explore it from multiple angles. As a result, compared to listening to it in the lecture or reading it in a book, they're much less likely to forget it. In fact, I've spoken with students, who 20 years later

remember a particular case study and the lessons from that case study, something you'll almost never get from reading about portfolio theory in a textbook. That's just to give you an example.

Now, having said that, there's a lot of chatter along the way that gets discarded in pursuit of that noble cause. I guess I'm saying I'm okay with some of that. I think the one thing I would add to this is you need a guide to take you through the BS. So as long as you have some clear thinkers in a group, whether that be the instructor guiding the discussion, or you have great students who were able to see the core issues and take you past the jargon or any kind of misleading information. I think it works.

Larry Bernstein:

Bruce, having been in the public sector and the private sector, is there more or less toleration for bullshit in one sort of institution than another?

Bruce Tuckman:

I'm not quite sure. I think it's a little bit like I was saying before, that there are just certain settings that bullshit is more natural. And I think, again, John was trying to get at that. I think you did mention the academic world, where I spent a lot of time, also. And there's some, but when people are at a seminar... I mean, again, the other two people on the call can say what they think. I think in a seminar, there's not a lot of bullshitting. I think people are trying to figure out what's going on and you can't get away with very much. And I think it has serious talk, and the government employees or business people, you also get that. I think as the crowd gets larger, as the group gets larger, as you're with strangers, then there's, again, all this stuff that John's talking about, trying to impress people and trying to make them think. It's more setting dependent than institution dependent.

Larry Bernstein:

Let's just follow that up with this example of that. Bruce, we're old friends, and sometimes we sit around and we bullshit. And to what John was talking about, what we'll do is, we'll test out a new hypothesis. We'll throw it out there and we'll see each other's reaction. And if one is dumbfounded and shocked and horrified, that'll give us a clue that maybe we shouldn't mention that again. I think there's a distinction when we talk about, "We're just bullshitting." Maybe we're not exaggerating. We were just trash talking or just talking gibberish. And maybe that should be the nature of my other question for John. John, to some extent you define some bullshit as just being gibberish. To what extent are we just having fun? Is it just ridiculous? When did it turn from gibberish to being a problem?

John Petrocelli:

Yeah, I think if you are saying, "Hey, we're just bullshitting." Or if you signal in any way that this may not be very well tied to truth or genuine evidence or established knowledge, I think what you're doing is you're saying, "I'm speculating." Or you're putting a qualifier out there and saying, "Hey, I actually am interested in truth. And what I'm saying, though, is not necessarily

gospel truth." Right? I think in that context, I think it's generally harmless. But when you say the same thing and you are disguising or being deceptive in the way that you say it, and suggesting that you are interested and that you do believe what it is that you say, similar to the liar, you are being deceptive in that you're acting as though you actually are interested in the truth. And if you're not, but you're pretending that you are, then I think depending on the content, it can vary in how harmful it is.

If it leads someone to believe something that's not true and then gets factored into an important decision, then I would say it's extremely harmful. But if it leads you to believe that the Keeping Up with the Kardashians is a great show and you should watch it. I mean, I'm not so sure. I think that's at least mildly harmful, but I'm not too sure that that has the same kind of harm that, "Well, yeah, I'm going to buy this used car and now I'm going to expect it to give me another 100,000 miles. It only has 20,000 miles on it now. I should easily clear 120,000 miles." And then it turns out to be a lemon because the person selling to you really had no clue about any of the details of the car. I think it certainly depends on the context and what the actual content of the bullshit actually is. But it can certainly vary.

Larry Bernstein:

, I like to end the show with some notes of optimism. I'm going to start with Robin. Robin, what are you optimistic about? And I don't want no bullshit.

Robin Greenwood:

I'm going to take my optimism from one of your questions today, Larry, which is the glass half full or half empty? If you look at the US economic response to COVID, I think it is to be envied around the world. And while the work that I spoke about today is about some of the unintended consequences and some of the impact of less than perfect targeting, overall, I think there's a lot to be praised about the US economic response and where we go from here.

Larry Bernstein:

I agree with you. Bruce, what are you optimistic about?

Bruce Tuckman:

Well, my answer will be bullshit, just in a sense of extrapolating from my very narrow experience in life and the world. So just with that caveat, I would say I want to be optimistic about our capacity to self-govern. I think we've had very strenuous years, as Robin mentioned with the pandemic, but also before with political stresses. But I believe that US institutions are strong, will endure, that we should not expect constitutional democracy to be anything but messy. It's hard living together, but we need to keep working at it with the optimism it deserves.

Larry Bernstein:

Perfect. John?

John Petrocelli:

I would say that people are unlikely to change their minds right away. Once we give them well-reasoned arguments and information that they've been missing out on, especially if they're not interested in truth to begin with. But I'm hopeful because I believe that to the extent that we change our communicative culture, such that we feel a little more comfortable calling bullshit when it emerges. I think the more comfortable we feel with that, the more frequently we will signal to bullshitters that, "I don't accept this. That you're going to have to do better." And I think that's going to open the gateway for evidence-based communication and ultimately more optimal decisions. So that's what I'm hopeful about.

Larry Bernstein:
That ends today's session. I want to make a plug for next week's episode.
I am very excited to announce that next week we will have the President of Northwestern Morty Schapiro and his co-author Gary Saul Morson who will discuss their new book Minds Wide Shut.

The book explores polarization in detail. And why we are seeing dueling monologues between both sides of the political spectrum. Each side thinks that they are right and that there is nothing to learn from their political opponents. Hopefully Morty and Saul can teach us how to forge ahead and begin a conversation that heals the political divide.

Our final speaker will be Josh Soven who was my college roommate. Josh is a partner at Wilson Sonsini specializing in anti-trust. Josh previously worked for the Department of Justice and the FTC. Josh will speak about Biden's staffing the antitrust department with progressives with an agenda to break up Big Tech and how this will play itself out.

If you are interested in listening to a replay of today's What Happens Next program or any of our previous episodes or wish to read a transcript, you can find them on our website Whathappensnextin6minutes.com. Replays are also available on Apple Podcasts, Podbean and Spotify.

I would like to thank today's speakers for their insights. I would also like to thank our listeners for their time and for engaging with these complex issues. Please stay tuned next Sunday to find out What Happens Next.