# Big narratives and Big Data: the Big Flaw

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### KEY MESSAGES

- The speculative narrative about Big Monopoly, Big Data, and Big Profits has become tawdry – alongside many other similar narratives.
- Fading narratives and a cracking camouflage to leverage are grounds for hypothesizing that the Fed could not re-power asset inflation in this cycle. .

## Is it Impossible to eradicate the Keynesian virus?

The Keynesian (or neo-Keynesian) virus strongly infected much market and economic analysis last year – nothing exceptional in that, but nonetheless troublesome. And so a big story line from the start of 2018 was how the Trump/Republican tax-cuts would fuel a US economic demand boom which in turn would make labor markets red-hot, drive inflation higher, and bring a sharp fall in US long-term interest rate markets (Treasuries down, interest rates up).

In fact this was a largely flawed and in the event false story-line. It is dubious how far if at all the tax-cuts (and expenditure over-runs) added to economic activity – given the bulging corporate sector savings surplus and squeezed real post-tax real disposable incomes under the influence of actual tax hikes for many middle class families (especially in metropolitan areas where deductibility of state/city taxes was curtailed). Yes, the tax-cuts may have been part of the narrative behind the late 2017 strength of the equity market – and the re-bound subsequently from the February lows – and this may have stimulated some spending; but such influences were transitory at best.

The main story of the US economy was an energy extraction-capital spending boom which faded by the second quarter, a continuing capital spending splurge by Big Tech, and a household sector which was driven in considerable degree by "credit feeding" (in particular predatory lending boom by private equity). Meanwhile the continuing drumbeat of digitalization and its radical restructuring influence in the business sector in many known and unknown ways sustained a downward natural rhythm of prices, so-called tight labor markets notwithstanding. And in any case money and credit, not hypothetically tight labor markets are the source of monetary inflation. In the global economy there were multiplying signals late last year of a cooling credit market; and that cooling could be traced back earlier in the emerging markets (especially China).

Some Keynesian analysts see a 2019 slowdown based on negative wealth effects and expiring US fiscal stimulus. But the big story of 2019 – whether a global slowdown now joined by the US turns into a recession or worse – will not be determined by such calculus. Much more important than any of that is the potential two-way process between asset deflation and the real economy. Slowing economic activity and falling corporate earnings estimates feedback to weaker equity and credit prices which in turn flash back to still weaker economic activity. And in judging the potential path of asset deflation we should focus on speculative narratives (story-telling) and camouflages to leverage – essential traits and drivers of the asset inflation process. Are the narratives becoming tawdry and discredited: and are the camouflages becoming thin? If so, then the dangers of crash and recession are growing.

Here today in *Economic Viewpoint* the focus is on one key such speculative narrative – forever rising monopoly profit in the platform companies mining big data to make smart advertisements. One thinks here of Google and Facebook, but in effect the story also extends to the likes of Amazon and "even" Apple and wider afield.

At one level there is nothing new in this advertising story. After all there is the history of TV advertising; consumers enjoying free TV shows in exchange for subjecting themselves to a series of ads. And in this process there could be some negative sum game; the greater effectiveness of TV advertising than previous forms of advertising may mean that the total resources of the economy devoted to advertising increases, but that in effect subtracts from economic prosperity (in so far as the advertising is not providing valuable new information hitherto inaccessible).

But at another level, smart ads (and other forms of advertising facilitated by Big Data) might bring ugly new elements to bear. First, there is monopoly; Google and Facebook enjoy monopoly power in smart ads that no TV show ever enjoyed, and correspondingly the rent paid by everyone else to the smart advert producers breaks all previous records of negativity. Then second there is the issue of bad practice and more broadly bad influences of big data collection. The smart ad producers may be trampling on individual rights and abusing individual decencies in obtaining big data from their free service-users. And the collection of this data may in turn facilitate smart ads in forms which are problematic for freedom and democracy.

He plunge in the value of these big platform companies late last year undoubtedly reflected growing concerns about both factors – that eventually government will take action to thwart the growth of and indeed turn back monopoly profit; and that the courts and legislatures could take action against big data abuse which has been so much a source of profit.

Media reports that Google, Amazon and Facebook have all recruited top anti-trust lawyers from the Justice Department towards preparing their defense against feared action in the next few years highlight that the hypothesis of ever rising monopoly profits is very tawdry at this point. And the equity markets have responded accordingly.

Time will tell whether the adjustment down so far is anything like enough, taking account of huge speculative feedback loops based on momentum which developed during the long monetary inflation in this cycle.

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