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The Belief of Knowledge

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The philosophical topic of knowing and forecasting has been widely discussed by a great deal of influential people. John Maynard, one of the most controversial and important economists, mathematicians and politicians of the 20th century once said that "all propositions are true or false, but the knowledge that we have from them, depends on the circumstances in which we find ourselves [...]"[1] Not knowing is therefore not a state of emergency, but normality. Based on his quote, the economist John Kenneth Galbriath defines two types of forecasters: "[...] those who don't know, and those who don't know they don't know"[2]. In either case, it can be said that we don't know anything about the future. To give an example, no government foresaw the war in Eastern Europe nor did the central banks foresaw the high inflation. As a result, both were completely wrong with the assessment of "short-term" or "temporary". Ignorance is hence inevitable. Or simply: normal. But what is the use of ignorance in our knowledge-based society, in which, according to Aristotle, everyone naturally strives for knowledge?[3] There are three use cases.

First, ignorance unleashes the power to acquire real knowledge. Looking at the past, it can be said that much of what is happening in Europe today took place in the past or with the famous words of Mark Twain "history doesn't repeat itself, but it rhymes."

Dealing with the unthinkable leads to the second use of not knowing; to think in scenarios. Nassim Taleb's book *The Black Swan* was a catalyst of this idea. The expression "black swan" has since been used as a metaphor for unlikely but massively effective events. Interestingly, since the financial crisis in 2008, a strong movement has developed that wants to avoid such events at all costs. The central banks and supervisory authorities are crucial here: they are taking ever more aggressive action against the risk of "black swans" by flooding the market with money and rules. The side effects of "large amounts of liquidity" are accepted and thus exposed to the probability.

Probability, according to Keynes in his book *A Treatise on Probability*, is not mathematics, but a form of expressing ignorance. "It may happen that small differences in the initial conditions produce very great ones in the final phenomena. A small error in the former will produce an enormous error in the latter. Prediction becomes impossible, and we have the fortuitous phenomenon."[4]

For Keynes it is therefore not appropriate to start from a "true" economic model. He also doubts that the economic agents involved have enough knowledge or ability to forecast and optimize the well-being of an economy. "Thus the fact that our knowledge of the future is fluctuating, vague and uncertain renders, wealth a peculiarly unsuitable subject for the

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[1] Keynes, John Maynard (1921), *A Treatise on Probability*. London: Macmillan & Co., 3.
[2] Galbraith, John Kenneth (1993), *Wall Street Journal*, Jan 22, C1.
[3] Lear, Jonathan (1988), *Aristotle: The Desire to Understand,* Cambridge University Press.
[4] Keynes, John Maynard (1921), *A Treatise on Probability*. London: Macmillan & Co., 286.

methods of the classical economic theory"[5]. That is why "the theory of the future, being based on so flimsy a foundation is subject to sudden and violent changes"[6].

This leads us to the third benefit, which is knowing your limitations. Or to put it another way: Only those who know where this ability and their own knowledge end have the true ability to solve problems. In order to make a serious decision, it is important to understand that one does not know everything. The crucial point is though: how do you know what part of a problem you don't see? It is often worth consulting an external consultant who can analyze the situation from the outside and offer insights about what you may not know.

[5] Keynes, John Maynard (1937), "The General Theory of Employment", *The Quarterly Journal of Economics*, Oxford University Press, vol. 51, issue 2, 213.
[6] Ibid., 215.