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The Snake and the Rope:

Ancient phenomena and current event

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The Parable of the Snake and the Rope

A man goes into a dimly lit shed and in his fear and confusion he mistakes a coil of rope for a giant snake. He runs out of the shed screaming and quickly panics the entire village. Later, calmer minds realize that the so called snake was only a pile of rope.

By Shankara's time (800 AD) this snake and rope story was already an ancient parable. In his commentary on the Brahma Sutras Shankara uses this parable to explain the term adhyāsa. In Shankara's metaphysics adhyāsa is the Sanskrit term for the superimposition of properties of one thing onto another thing. 'In-attention' is the literal translation. Out of fear, or hope, or mere carelessness one mistakenly perceives something in the present for something one has seen in the past.

Adhyāsa In Behavioral Economics

In behavioral economics the pareidolia effect comes closest to describing the phenomena of adhyāsa. Pareidolia is Greek for 'false image.' Examples include seeing the face of a man in the moon, seeing a religious figure in a piece of toast, or seeing real estate as a 'can't lose' investment. The Rorschach inkblot test uses this phenomena to reveal aspects of an individual's personality. The subject projects internal hopes and fears and emotional issues onto a content-less abstract image. Whether in the context of every day life, or a psychological test, or an investment choice, humans have a tendency to see what they fear or what they hope for instead of what actually exists. Subjective bias is another term for this effect.

Adhyāsa In Collective Behavior

Adhyāsa can be much more dangerous in collective human behavior. "Extraordinary Popular Delusions and the Madness of Crowds" from 1841 by Charles Mackay is a catalogue of examples of collective adhyasa. From financial manias like the South Sea Bubble (which bankrupted Sir Issac Newton - among many others) to Tulipmania, to Alchemy, the Crusades, and beyond, MacKay details a distressingly wide range of collective delusional behavior. Nearly worthless objects are mistakenly priced as wildly expensive investments. The harmless are mistaken for the extremely dangerous. Utterly useless fields of study are mistaken for subjects worthy of a lifetime of research.

Without this collective adhyasa neither speculative bubbles nor financial panics would be possible. It is a phenomena as old as mankind and as current as today's headlines. It is an aspect of human nature.

Adhyāsa in Popular Culture

The ugly reality of adhyasa was recently on full display in the case of a 14 year old 9th grader in Dallas Texas. He took a homemade clock to school to show a teacher. Instead a teacher mistook Ahmed Mohamed's clock for a bomb and called the police. Mohamed was hand-cuffed and interrogated by five policemen for hours before his father was even called. Then he was suspended from school. The teacher saw his worst fears, not what was actually in front of him. Then the police, who are supposed to be more perceptive, made the same mistake. A harmless object was mistaken for an extremely dangerous object.

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Adhyāsa in the Financial Markets

- In the Dot-Com bubble the pricing of worthless companies reached stratospheric levels. And in the bursting of that speculative bubble very valuable companies were mistaken for the nearly worthless.
- In the real estate bubble that followed, mediocre real estate was chased up to astronomical price levels. And in the bursting of that bubble valuable real estate was mistaken for refuse.
- In the commodity bubble the ample and the abundant were mistaken for the extremely rare. And in the bursting of that bubble commodity prices completely collapsed, and are still falling.

These three instances share a common dynamic. The madness of crowd behavior chases prices higher and higher until the commonplace is mistaken for the extremely rare. And in the ensuing collapse the madness of crowds mistakes the valuable for the worthless.

It is as if internet stocks, then real estate, then commodities, and now equities take turns as the preferred Rorschach inkblots of their day. Each new inkblot becomes the focus of wild swings in the collective mood of the markets. The collective consciousness swings from wildly bullish to wildly bearish and the innocent bystanders of euities, and then real estate, and then commodities take their turn being swept away by delusional collective hopes and fears. A rope is first mistaken for a gold chain, and then for a snake. And then a new rope is selected for the same treatment. And then another rope. And then another rope. On and on it goes. Hence my description of the post 1990 world as the golden age of the speculative bubble.

"Fear is the Mind Killer" - from *Dune* by Frank Herbert

On Thursday 17th September the world breathed a huge sign of relief when the Federal Reserve delayed hiking interest rates. What was widely expected to be a financial armageddon was postponed - at least until the next meeting of the Fed. Certain financial commentators and cable networks have become adept at finding coils of rope that they can portray as snakes. Frightened investors are much more likely to stay tuned. And the more investors that are scared into tuning into a show, the higher the ratings for that show. The higher the ratings, the more the networks can charge for advertising time. Where the media is concerned fear is profitable. A Fed rate hike is their latest bogeyman.

Two important facets of adhyāsa is the fear that typically drives it and the fact that this fear can utterly blind one to the real risks ahead. In the case of the Federal Reserve, perhaps the real risk is not a rate hike at all. Perhaps the real risk is the widespread distortions in the markets that ten years of near zero interest rates have produced. Free money is the engine that runs the conveyor belt of bursting asset bubbles that began with the Dot-com bubble and continues until now. The fear that a rate hike will cause financial instability has blinded most everyone to the fact that near zero interest rates are the source of unprecedented financial instability. But then this is human nature. A smoker craves nicotine even though he knows fully well that smoking is killing him. The financial markets have become addicted to free money. The affliction is mistaken for the cure. A snake is mistaken for a golden chain. And we are all the worse for it.