



# **On the Problem of the Hedgeless Hedgefunds of Sleepy Hollow: An Evolutionary Stable Solution in an Open Letter to Kenneth Griffin**

Funk, Matt

The University of Prince Edward Island

1 April 2009

*On the Problem of the Hedgeless Hedgefunds of Sleepy Hollow:*

*An Evolutionary Stable Solution in an Open Letter to Kenneth Griffin.*

CC: Avy Stein  
BCC: Jason Funk

Part I: 31 December 2007

Part II: 15 Feb 2009

Part III 1 April 2009

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1 April 2009

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*Eppur si muove*

## ABSTRACT

This discourse explores and illuminates a fundamental problem, the Achilles' heel, which dominates the hedgefund industry: namely, that hedgefunds no are not positioned to accomplish what they were designed to do: namely, *hedge* against catastrophic loss in the financial markets. Contemporary fund strategies were built upon random-walk, efficient market theories which are now well-known to be false, thus our present dilemma. This discourse tables the *Evolutionary Stable* Strategy, for prospective hedgefund investors which, essentially, follows the dominant strategy outlined by Smith in 1776. Our discourse also highlights the dimly recognized difference between *internal* and *external* financial shocks, as well as several key points regarding economic methodology.

Attn: Kenneth Griffin  
Citadel Investment Group, L.L.C.  
131 S. Dearborn Street, 32nd Floor  
Chicago, Illinois 60603

31 December 2007

Dear Mr. Griffin:

For the decade I have been working with Karl Popper's solution to David Hume's *Problem of Induction* [1] in order to derive an evolutionary stable solution to *The Problem of Sustainable Economic Development*.

At last I have indeed have derived a tenable solution, and, in the process, uncovered a class of undervalued assets.

As Stigler noted in his 1982 *Sveriges Riksbank Prize* lecture, meaningful economic analysis is not possible without a theory of value [2], and thus addressing this fundamental deficiency was an essential prerequisite of my game theoretical solution, a unified theory of value which you may find enclosed herewith. This paper also details pre-theory desiderata and, furthermore, outlines quantitative and qualitative characteristics of my solution. I hope to complete a full, axiomatic description of this discovery by the spring.

My inquiry has included a rather thorough investigation of the case of *Long Term Capital Management*, and I have concluded that both financial and political institutions have, in general, not learned the LTCM lesson (nor the Amaranth lesson, for that matter), and, as time moves forward, [3] extraordinary financial shocks [4] become more probable (and more volatile, and more severe), due to the irreversible nature of an expanding universe and the human tendency to denigrate history and our inability to comprehend *The Problem of Induction*. One of the most critical lessons the case of LTCM has to offer is the clear illustration that markets—contrary to the random-walk and efficient market theories—are heavily interdependent, and thus a good number of so-called 'hedge funds' do not facilitate the purpose for which they are ostensibly designed.

After attempting (and, I suspect, failing) to explain the gravity of the sub-prime quagmire in a series of emails to my father over the past year, it occurred to me that my theory of value illuminates a path for a very unusual, yet in many regards, very traditional fund: A geographically diversified and insulated fund which may perform fair in up markets, a bit better in down markets, but provide extraordinary returns, and, most importantly, potentially life-saving dividends and fringe benefits in the event of a 100-year economic storm.

Moreover, this *Relative Insularity Fund*, by nature of the theory of value upon which it is to be founded, would perform increasingly well over the long haul.

I am looking for a firm interested in exploring this prospect with me, as I find both Citadel and the city of Chicago very appealing. It seems to me that your endeavour to build a very independent firm has, perhaps, ultimately set you apart from the pack. Although I am not seeking full-time employment, I would consider any opportunity. I will be here in Chicago until 5 January, and will call your office on Thursday to see if you are interested in meeting to discuss this opportunity. You may reach me at the Union League Club (312-427-7800 or mfunk@upei.ca). If you are unable to meet this week, next month I will return to the U.S. to conduct field research on Key Largo (and will be staying at The Ocean Reef Club). If by chance you will pass through Miami, perhaps we could discuss this opportunity over a round of golf or an afternoon of fishing? In any case, please find my CV and the above-noted paper enclosed herewith. I hope to meet with you soon.

*Naturae Discere Mores...*Matt Funk

Enclosures: (1) *Cirriculum Vitae*, (2) *On the Problem of the Hedgeless Hedgefunds of Sleepy Hollow: An Evolutionary Stable Solution in an Open Letter to Kenneth Griffin*.

## NOTES

1. (a) Our foregoing method of reasoning will easily convince us, that there can be no demonstrative arguments to prove, that those instances, of which we have had no experience, resemble those, of which we have had experience—*David Hume, A Treatise of Human Nature, 1739, Book I, Vol I*  
(b) It took a remarkably long time before the novelty of the intellectual situation was grasped. Few realized what had happened. David Hume...saw that a great step forward had been taken, but he did not understand just how great and how radical this advance in human knowledge really was. I am afraid that even today many people still do not fully understand this....

The classical notion of science as true, secure and sufficiently justified knowledge still flourishes even today. But it was overtaken sixty years ago by the Einsteinian Revolution; by Einstein's gravitational theory. The outcome of this revolution is that Einstein's theory, whether true or false, demonstrates that knowledge in the classical sense, secure knowledge, certainly is impossible. Kant was right: our theories are free creations of our intellect, which we try to impose upon nature. But we are only rarely successful in guessing the truth; and we can never be certain whether we have succeeded. We must make do with conjectural knowledge—Sir Karl Popper, *In Search of a Better World*, 1992.

(c) Hume has permanently influenced the development of the best of philosophers who came after him. Man has an intense desire for assured knowledge. That is why Hume's clear message seemed crushing—Albert Einstein, *Ideas and Opinions*, 1956.

2. In economics the most fundamental of these central problems is the theory of value. The theory of value must explain how the comparative values of different goods and services are established. Until that problem is solved, it is not possible to analyse for scientific purposes what will be produced and in what quantities, how the resources will be employed in producing the menu of outputs, and how the resources will be valued. Without a theory of value the economist can have no theory of international trade nor possibly a theory of money. This central problem of value does not change in its essential content if one seeks to explain values in rural or urban societies, or in agricultural or industrial societies. Indeed, if the problem of value were so chameleon like as to alter its nature whenever the economic or political system altered, each epoch in economic life would require its own theory, and short epochs would get short-lived theories—George G. Stigler, *The Process and Progress of Economics*, 1982.
3. Ever since the beginning of modern science, the best minds have recognized that 'the range of acknowledged ignorance will grow with the advance of science.' Unfortunately, the popular effect of this scientific advance has been a belief, seemingly shared by many scientists, that the range of our ignorance is steadily diminishing and that we can therefore aim at more comprehensive and deliberate control of all human activities. It is for this reason that those intoxicated by the advance of knowledge so often become the enemies of freedom... The growth of our knowledge of nature constantly discloses new realms of ignorance... The more men know, the smaller the share of all that knowledge becomes that any one mind can absorb. The more civilized we become, the more relatively ignorant must each individual be of the facts on which the working of his civilization depends—F.A. von Hayek, *The Use of Knowledge in Society*, 1945.
4. Since the time of Cournot it has been well understood that probability theory has no rightful place in economics, and when I refer to an 'extraordinary financial shock' I am referring to events which those whom have failed to grasp the significance of Cournot's insight commonly refer to as eight, nine, or ten-sigma events (last August Goldman's CFO was even foolish enough to state "We are seeing things that were 25-standard deviation events, several days in a row"). In any case, when I refer to an 'extraordinary financial shock' I mean, essentially, a 100-year economic storm, such as the Great Depression or unimaginably worse (i.e. unlike anything *H. sapiens* have encountered for thousands of years).

----- Original Message -----

*Subject:* RE: Relative Insularity  
*Date:* Sun, 15 Feb 2009 17:44:39 -0400  
*From:* Matt Funk <matt@funkisland.org>  
*To:* Avy Stein <astein@willisstein.com>

Dear Avy....I'd like to offer a very belated thank you. Many years ago you were kind and gracious enough to meet with me when I knew nothing and had even less to offer, and although I may now know merely next-to-nothing,<sup>1</sup> I have made a few discoveries which may be of interest to you.

As I was writing an overdue follow-up email to Ken Griffin (on the following page) a few moments ago, it occurred to me that you might appreciate a copy of my most recent findings as well. If you'd like the second or third instalments of the paper attached herewith, I'll be happy to send them along.

And although you may recognize that I am searching for a good opportunity to apply my theoretical findings, in consideration of the portfolio holdings listed on your website, I don't think I'd be much use to you, as my focus is squarely upon rangeland production systems and insular economic development.

If you develop interests in this class of investments in the future, however, please keep me in mind. For example, I've looked closely at *Tehon Ranch* (TRC), and it seems likely that their present strategy may run them into the ground (with or without an economic recovery) in due course, and, based upon my findings, it seems considerable value could be achieved by charting a course opposite from their present heading. I also see considerable unrealized value in the privately held *Molokai Ranch* (which is for sale), and *Parker Ranch* (where significant rangeland holdings are also for sale). Hawai'i does presently present a significant stochastic risk element (an active volcano), but this, in conjunction with the present economic climate, has exerted and may continue exert excess downward price pressure on these rangeland holdings. It is also less commonly known that the type of volcanism on Hawai'i is much less problematic than the class of volcanoes in Alaska, for example, or, perhaps most notably, the Yellowstone Caldera. Otherwise, more generally speaking, I'm interested in helping someone pursue what I believe is the most evolutionary stable economic strategy in play in the United States: Ted Turner's vertically integrated strategy for his 2MM+ acres of rangelands, wildlife and large ungulate (*Bison bison*) production systems, and Ted's Montana Grills (If you haven't read *Call Me Ted*, I highly recommend it). Ideally, I'd like to go to work for Turner, as I am aware of several unrealized strategies which I'm well-positioned to help readily deploy (with no further capital outlays). CRESY (in Argentina) also interests me, but I have not had the opportunity to look closely at their operations. And as my research has focused squarely upon the privatization of islands, if you should come across an opportunity in this arena, I may have some insight to offer regarding development strategy. St. Helena, for example, offers an enticing privatization opportunity, as there are presently less than 3,000 inhabitants, and it remains nearly as "wonderfully isolated" as it was when Alfred Russell Wallace called it so in his extraordinary 1881 *Island Life* (p. 498).

In any case, I hope all is well, and please accept this belated thanks!

Sincerely....Matt Funk

Enclosure: *Journal of Researches into the Natural History of Mustique: On the Extinction of Species by Means of Insularity Lost, And The Law which Regulates the Struggle for Life, Or, The Evolutionary Stable Solution to The Problem of Sustainable Economic Development.*

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<sup>1</sup> [Do not] believe *anything* that I suggest! Please do not believe a word! I know that that is asking too much, as I will speak only the truth, as well as I can. But I warn you: I know *nothing*, or *almost nothing*. We all know nothing or almost nothing. I *conjecture* that that is a basic fact of life. We know nothing, we can only conjecture: we guess [all italics Popper's 1999, p 37].

----- Original Message -----

*Subject: RE: Relative Insularity*  
*Date: Sun, 15 Feb 2009 16:16:24 -0400*  
*From: Matt Funk*  
*To: Kenneth Griffin*  
*Bcc: Jason Funk*

Dear Mr Griffin:

I was in Chicago last weekend for my son's 6th birthday party, and as I was staying at The Union League Club, I thought of you.

You may recall that on 31 December 2007, I delivered (I was, once again, staying around the corner at the ULC) a letter of introduction and a research discovery which suggested that we were on the verge of a global economic collapse, and that I had a solution, since I had in fact solved the most fundamental, open problem in economics. If you had the opportunity to review this material, you might also recall that I had developed an *Evolutionary Stable Strategy* which informed a theoretically unbeatable hedge against economic collapse. Your assistant kindly thanked me for the materials via email, but I apologize that I did not have the opportunity to thank her in return (so, if it's not too much trouble, please pass along my belated thanks). I also apologize that, due to the fact that my findings were in an early stage of development and yet unrefined, that I suspect that they were not coherent enough to garner your attention or warrant further consideration. Naturally, I'm also sorry that we did not have the opportunity to meet, and, furthermore, to employ my strategy.

But I did have the opportunity to present these findings in Finland last summer, and I have been refining and clarifying them ever since. I have also just completed a comprehensive working paper (enclosed herewith), and an exhaustive, (and, perhaps oddly entertaining) manuscript detailing the complex inter-dependencies which relate to this problem and my theoretical solution: *On the Problem of 'Bailing-out' the Economy: The Principles of Economics & Evolution for the Inhabitants of Small Islands, including the Small Island of Earth in an Open Letter to President Barack Obama*. Yes, a rather long title for an essentially long manuscript (1259 pages – if this solution could have been presented with a PowerPoint presentation or within the pages of a refereed journal article, it would have been done so long ago). In any case, however, since your web-site notes that you are working on “the most complex financial problems in the world,” I thought I might merely remind you that I solved the most complex financial problem (not to mention a fundamental evolutionary problems relating to the very survival of the human species), and hand-delivered that solution to you more than a year ago.

Moreover, although some of my fears (sub-prime, CDS, etc.) have indeed come to pass, the most significant economic threats remain outstanding, and largely unrecognized. You may recall that, when Mr Soros offered his testimony when you were both in Washington last November, he began by noting that *the salient feature of the current financial crisis is that it was not caused by some external shock*.<sup>2</sup> As you may discover, my research, the threats I'm primarily concerned with, are “external.” It is impossible to convey the gravity of the logical implications of these “external threats” in such a short letter, but, in the meantime, I submit that the economic “Bail-out Plan” that we have begun to deploy has the deleterious potential to compound the problem by creating far greater exposure to

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<sup>2</sup> Thank you Mr. Chairman and members of the Committee.

*The salient feature of the current financial crisis is that it was not caused by some external shock like OPEC raising the price of oil or a particular country or financial institution defaulting. The crisis was generated by the financial system itself.* This fact—that the defect was inherent in the system—contradicts the prevailing theory, which holds that financial markets tend toward equilibrium and that deviations from the equilibrium either occur in a random manner or are caused by some sudden external event to which markets have difficulty adjusting. The severity and amplitude of the crisis provides convincing evidence that there is something fundamentally wrong with this prevailing theory and with the approach to market regulation that has gone with it. To understand what has happened, and what should be done to avoid such a catastrophic crisis in the future, will require a new way of thinking about how markets work (Soros 2008).

these external risk factors.

In short, we've elected to allocate "emergency funds" to fight an *internal* fire, which may thus make it impossible to 'put-out' or 'bail-out' an *external* fire. I submit the only upside to this otherwise grim reality is this: Those who understand the nature of this evolutionary unstable strategy stand to profit by betting against it (as I have indeed been doing with favourable and readily demonstrable results).

I will also note that Warren Buffett's recent declarations that "U.S. equities presently represent a good value," are - despite his impressive track record (which is, of course, part of *The Problem of Induction*) - emphatically false. Neither Buffett nor anyone else is sufficiently equipped to say what 'represents' or 'does not represent' a good *value*, because, as Chicago's very own George G. Stigler noted in his excellent Rinksbank Prize lecture of 1982, economics does not have a theory of value. Once again, however, this is exactly the problem I have solved with my *Universal Theory of Value*.

And, to this point, you may also recall that my methods are rather unusual - that I do not believe in the inductive methods of contemporary economics, and that I utilize islands as economic models. Although it may be true that, as far as I know, I'm the only economist/naturalist utilizing such methods, I believe that many may be willing to consider that, perhaps Popper, Hayek, Soros, and Taleb are all right, that most of all of econometrics is utterly useless (or, more likely, as we've discovered far too many times to recount here – even dangerous), that as far as so-called social 'sciences' are concerned – probability theory causes far more harm than good.

You may also recall that I was conducting some research in the Florida Keys and that, in my letter dated 31 December 2007, I had invited you to be our guests at the Ocean Reef Club, to witness the value of relative insularity first-hand. Well, I'd like to extend a similar invitation to see my theoretical solution at work on Parker Ranch, on the big island of Hawai'i. I'll be conducting field research there for the next two weeks, so if you'd like to experience the power and practical utility of an evolutionary and economic theory of value based upon relative insularity, or discuss my findings and proposed hedge fund strategy, my wife and I are set-up in a cottage on the ranch, and we have two spare bedrooms. Alternatively, if you've been Mustique, then you may have already sufficiently sampled *The Law of Relative Insularity*, and thus, you may now readily grasp the significance and implications of my discovery. Also, you may gain some insights by viewing some photographic explorations of *The Law of Relative Insularity* posed at <http://www.funkisland.org>.

I've enclosed the first 23 pages of my *Journal of Researches into the Natural History of Mustique: On the Extinction of Species by Means of Insularity Lost, And The Law which Regulates the Struggle for Life, Or, The Evolutionary Stable Solution to The Problem of Sustainable Economic Development. An Open Letter & Proposal of Fellowship to The Linnean Society of London*. If you'd like to review the remainder of this paper, I will be happy to forward it upon request. You'll find my Hawai'i contact details on the second page of the attached paper.

My itinerary for the next three weeks is below, and although I do not have a trip planned to Chicago in the next two months, this could be arranged as well. But, again, please consider joining us for a few days in Hawai'i. Although Parker Ranch doesn't model my solution as well as The Mustique Co. (Parker Ranch is merely able to protect 5-6% of the big island through privatization, The Mustique Co. protects 100% of Mustique), it does share several primary characteristics (though the "value" of Parker's relative insularity remains largely unrealized), and, of course the Hawaiian islands offer much greater biogeographic and politico-economic insularity than St. Vincent and the Grenadines..

*Naturae Discere Mores...*Matt Funk

Feb 16: American 223, Depart Boston at 6:55 PM, Arrive Los Angeles at 10:25 PM, Seat 3E, Z Class

Feb 17: American 247, Depart Los Angeles at 5:15 PM, Arrive Kailua-Kona at 9:00 PM, Seat 3B, Z Class

Mar 05: American 246, Depart Kailua-Kona at 10:30 PM, Arrive Los Angeles at 5:35 AM, Seat 2E, Z Class

Mar 06: American 551, Depart Los Angeles at 8:00 AM, Arrive Dallas at 1:05 PM, Seat 3B, U Class

Mar 06: American 802, Depart Dallas at 2:40 PM, Arrive Montreal at 7:05 PM, Seat 4B, U Class

----- Original Message -----

*Subject: RE: Relative Insularity*  
*Date: Mon, 16 Feb 2009 16:01:56 +0000*  
*From: Jason Funk <jasonfunk@googlemail.com>*  
*To: Matt Funk <matt@funkisland.org>*

Hi Matt,

Not in Hawaii, not going until end of March, but very much looking forward to it. Are you there now? That was a pretty bold message to Ken Griffin...

Wow, have you sent your findings to Clive Ganger, Thomas Schelling or Ed Phelps?

Good luck with your research!

Jason

----- Original Message -----

Jason Funk  
Strathmore Capital LLP  
102 Sydney Street  
London SW3 6NJ, England

1 April 2009

Dear Jason,

Thanks for your thoughtful reply, your support<sup>3</sup> and insights are always greatly appreciated. Sorry it's taken me awhile to get back to you; Based upon your note dated 16 February, I believe that you're presently enjoying the "wonderful isolation" of Kauai and Lanai (to borrow Wallace's excellent description of relative insularity), so I'll leave you to thoroughly enjoy your holiday and mail these prosaic considerations to you in London, for you to consider upon your return.

The three great problem solvers you had noted above all great ideas, thanks.

My findings may be rather compatible with Schelling's sense of realism, and they also highlight the evolutionary stability hegemon status affords, including, ironically, peaceful economic development (*si vis pacem, para bellum*). As for Phelps, I haven't followed his recent writings, but it seems to me that, in general, the initiatives at Columbia are as misguided as the sustainability agendas at most Universities.<sup>4</sup>

<sup>3</sup> ----- Original Message -----

*Subject: Re: Granger, Schelling, etc.*  
*Date: Tue, 17 Feb 2009 10:27:27 +0000*  
*From: Jason Funk <jasonfunk@googlemail.com>*  
*To: matt@funkisland.org*

Hi Matt,

I'd be glad to read [the introduction to your *Journal of Researches into the Natural History of Mustique: On the Extinction of Species by Means of Insularity Lost, And The Law which Regulates the Struggle for Life, Or, The Evolutionary Stable Solution to The Problem of Sustainable Economic Development*] this weekend. Your passion for your subject is admirable....

<sup>4</sup> ----- Original Message -----

*Subject: Greetings from Prince Edward Island*  
*Date: Mon, 24 Dec 2007 23:34:48 -0400*  
*From: Matt Funk <matt@upei.ca>*  
*To: director@ei.columbia.edu*

Greetings Professor Sachs....I am in search of a PhD program, and find many aspects of your programme enticing.

I have attached the *Abstract* and table of contents of a recent working paper, and, if you find it intriguing, I would like to send it

I was in contact with Granger during the winter of 2007, and he was in fact kind enough to review an abstract, while my theoretical framework was in its infancy. At the time, I was also attempting to illustrate the manner in which *The Problem of Induction* plagues the social sciences (the Kuhn-Popper debate, in particular)<sup>5</sup> and I had asked both he and Peter Doherty to kindly clarify their positions on this weighty manner:

-----Original Message-----

From: Matt Funk

To: Doherty, Peter <mfunk@upei.ca>

Sent: Sun Oct 28 20:44:21 2007

Subject: Thomas Kuhn & Karl Popper

Greetings Dr Doherty:

I am questioning a conjecture that the rejection of Karl Popper's logic and methods, and the general acceptance (in a popular sense) of Thomas Kuhn's logic and methods have been detrimental to science, especially social sciences such as economics.

Nearly a dozen Nobel Laureates have thanked Popper and acknowledged his great influence upon their work: most notably, of course, was Hayek's Nobel Lecture<sup>6</sup> and, perhaps the most notable example in your field may be revealed in Eccles' Nobel biography.<sup>7</sup>

-----Original Message-----

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along with my CV.

Although I have no doubt your program may live up to many of the aspirations noted on *The Earth Institute at Columbia* website, for considerable reasons I detail in the findings I have noted above, I believe *The Problem of Sustainable Development* is ultimately insoluble within the inherent limitations of the so-called 'social sciences'. In fact, during a seminar at Stanford University in 1956, Sir Karl Popper suggested that 'subject matters' do not exist, and some of the most eminent scholars of our time have concurred with this strong conjecture, and the logical implications it freights.

Thus, in light of this problem, is an interdisciplinary Ph.D with the biology department (or another University) a possibility? I believe the solutions you seek are readily discoverable withing the syllogistic core of evolutionary theory, but without it, as Darwin noted in 1859, *H. sapiens' Struggle for Life* will remain "dimly seen or quite misunderstood."

If you are interested in reviewing my paper, please let me know and I will send it along. *Naturae Discere Mores...*Matt Funk

<sup>5</sup> (a) The Kuhn-Popper debate, strictly speaking, refers to an encounter that took place at the former Bedford College, University of London on 13 July 1965, as part of the International Colloquium in the Philosophy of Science. It was designed to pit a relatively young theorist of science (Kuhn, aged 43) whose 1962 book, *The Structure of Scientific Revolutions*, was touted as the latest word from the Unite States, against a relatively old theorist of science (Popper, aged 63) whose seminal book, *The Logic of Scientific Discovery*, had been translated into English on in 1959, a quarter-century after it first appeared in German (Fuller 2003, p10).

(b) This brings me to the... source of the debate's continuing significance. Kuhn and Popper tapped into long-simmering, deep-rooted disagreements that went well beyond the pages of their major works on science.... Sometimes behind such scholastic fodder that frames philosophical debate lie opponents who are not so different from each other after all.... But sometimes the stereotype, for all its crudeness, *does* capture differences in sensibility that become deeper the more one looks. This is certainly the case with Popper and Kuhn (*Ibid*, pp14-15).

(c) The clash between Popper and Kuhn is not about a mere technical point in epistemology. It concerns our central intellectual values, and has implications not only for theoretical physics but also for the underdeveloped social sciences and... moral and political philosophy (Lakatos 1978, v 1, p 9).

<sup>6</sup> *If we are to safeguard the reputation of science, and to prevent the arrogation of knowledge based on a superficial similarity of procedure with that of the physical sciences, much effort will have to be directed toward debunking such arrogations, some of which have by now become the vested interests of established university departments. We cannot be grateful enough to such modern philosophers of science as Sir Karl Popper for giving us a test by which we can distinguish between what we may accept as scientific and what not - a test which I am sure some doctrines now widely accepted as scientific would not pass* [italics mine, Hayek 1974a].

<sup>7</sup> The New Zealand interlude was... notable because there Eccles met the philosopher, Karl Popper, from whom he learnt the relationship of the scientist to hypotheses; how to be daring in developing hypotheses of the greatest generality, and at the same time how to test them with the utmost rigour with the consequence either of falsification in whole or in part, or at best corroboration; but never confirmation. *He feels that this relationship to hypotheses has not only increased his conceptual power, but has also greatly helped emotionally! He can now rejoice even in the falsification of a cherished theory, because even this is a scientific success* [italics mine Nobel 1963].

*From: Doherty, Peter <pcd@unimelb.edu.au>  
To: Matt Funk <mfunk@upei.ca>  
Date: 10/28/07 11:58 pm  
Subject: Re: Thomas Kuhn & Karl Popper*

A long time since I've read either. Popper's views re falsification of a null hypothesis seem correct to me. Much of the world's worst science is done by people who are determined to prove a point.

Kuhn's idea of the paradigm shift is spot on.

Peter C. Doherty,  
Department of Immunology,  
St Jude Children's Research Hospital

You may have guessed that, like George Soros, Nassim Taleb, F.A. von Hayek, Einstein, Ernst Mayr, Alan Sokal,<sup>8</sup> and even Popper<sup>9</sup> himself, I disagree with Doherty's assertion that "Kuhn's idea of the paradigm shift is spot on," but we'll save that conversation for a rainy day. Next, I posed this question to Granger:

-----Original Message-----

*Subject: Thomas Kuhn & Karl Popper  
From: Matt Funk <mfunk@upei.ca>  
Date: Sun, 28 Oct 2007 23:22:50 -0300  
To: Clive Granger <cgranger@ucsd.edu>*

Greetings Dr Granger...I am researching the conjecture that the rejection of Karl Popper's logic and methods, and the general acceptance (in a popular sense) of Thomas Kuhn's logic and methods have been detrimental to science, especially social sciences such as economics.

Nearly a dozen Nobel Laureates have thanked Popper and acknowledged his great influence upon their work: most notably, naturally, was his great friend and kindred spirit, F.A. von Hayek's Prize Lecture<sup>10</sup> (and of course Popper's influence may be easily distilled in Hayek's beautiful banquet speech as

<sup>8</sup> My goal is to defend what one might call a scientific worldview -- defined broadly as a respect for evidence and logic, and for the incessant confrontation of theories with the real world; in short, for reasoned argument over wishful thinking, superstition and demagoguery. And my motives for trying to defend these old-fashioned ideas are basically political. I'm worried about trends in... [America]... -- particularly here in academia -- that at a minimum divert us from the task of formulating a progressive social critique, by leading smart and committed people into trendy but ultimately empty intellectual fashions, and that can in fact undermine the prospects for such a critique, by promoting subjectivist and relativist philosophies that in my view are inconsistent with producing a realistic analysis of society that we and our fellow citizens will find compelling (Sokal 1996).

<sup>9</sup> I uphold the ancient theory of truth... according to which truth is the agreement with the facts of what is being asserted. Kuhn's views on this fundamental question seem to me affected by relativism; more specifically, by some form of subjectivism and of elitism, as proposed for example by Polanyi. Kuhn seems to me also affected by Polanyi's fideism: the theory that a scientist *must* have faith in the theory he proposes (while I think that scientists--like Einstein in 1916 or Bohr in 1913--often realize that they are proposing conjectures that will, sooner or later, be superseded). There are many other such points of difference, of which perhaps the most important is my emphasis on objective rational criticism: I regard as characteristic of ancient and modern science the critical approach towards theories, from the point of view of whether they are true or false. Another important point seems to me that Kuhn does not seem to see the great importance of the many purely scientific revolutions that are *not* connected with *ideological* revolutions [all italics Popper's 1982, pp xxxi-xxxii].

<sup>10</sup> It is often difficult enough for the expert, and certainly in many instances impossible for the layman, to distinguish between legitimate and illegitimate claims advanced in the name of science.... If we are to safeguard the reputation of science, and to prevent the arrogation of knowledge based on a superficial similarity of procedure with that of the physical sciences, much effort will have to be directed toward debunking such arrogations, some of which have by now become the vested interests of established university departments. We cannot be grateful enough to such modern philosophers of science as Sir Karl Popper for giving us a test by which we can distinguish between what we may accept as scientific and what not - a test which I am sure some doctrines now widely accepted as scientific would not pass (Hayek 1974b).

well).

Peter Doherty is the only Laureate who acknowledged (in either a banquet speech or Nobel lecture) Kuhn's influence and, curiously, Doherty acknowledged both Popper and Kuhn ("I was influenced early on by reading Arthur Koestler and Edward de Bono, and more recently by the writings of Karl Popper and Thomas Kuhn").

Naturally, I was very intrigued by a comment in your lecture, and was hoping you might be willing to expand a bit on this topic; of course I'd also be curious to know if your position on Popper and/or Kuhn has changed since the receipt of your award.

I thank you very much for your time and consideration regarding this matter, as I am inclined to believe prospects for human existence hang in the balance to the ultimate answer to important questions relating to this debate.

Any words of wisdom you are able to offer would be greatly appreciated. A pot of fresh North Atlantic lobster will be prepared on a moment's notice if you should ever visit Prince Edward Island!  
Sincerely...Matt Funk

Much to my chagrin, a UPEI IT glitch decimated my email-box, including two generous replies from Professor Granger, but, in a nutshell, he was very gracious, and, if I remember correctly, remarked, alas, that there was "no sign" of Popper's lasting influence in New Zealand. Granger also kindly reviewed an abstract of my early methodological development of 'island' economic models, and in fact related that, along these lines, he had once sought funding to conduct island-based economic analysis in the Falklands, but the funding was not forthcoming, and thus he abandoned this line of methodological development. The other curiosity, was that Granger was and apparently remains a visiting professor at the University of Canterbury in New Zealand at the time, and thus it was interesting to correspond with him about islands while he was within the cradle of New Zealand's relative insularity. Although I suspect he may not concur with many of my conjectures regarding probability theory, he may find my use of islands intriguing, and, perhaps even of some value.

I will follow-up with Professor Granger and keep you apprised of my progress or lack thereof.

And, in consideration for your patience with these critical, yet no doubt dry methodological issues, I'll offer a few poetic words of inspirational thanks for enduring this discursive letter:

Once upon a time, Michel de Montaigne's grandfather bought land at the top of a wooded hill in Bordeaux and built a yellow stone castle, which offered a fine measure of evolutionary stable insularity for a young scholar. There was a circular library on the third floor of a tower at one corner of the castle with three windows, a desk, a chair, and over a thousand volumes on five semicircular shelves. As Alain de Button related in his most excellent and highly recommended *The Consolations of Philosophy* (2000), Montaigne reminisced, "I spend most days of my life there, and most hours of each day," and this is where he concluded, in agreement with Popper, Hayek, Soros, Einstein, and Russell, that Socrates was "the wisest man that ever was." Montaigne's circular library also held a copy of Cicero's *Tusculan Disputations*, in which Cicero offers in words what I have merely glimpsed in lost dreams:

There is no occupation so sweet as scholarship; scholarship is the means of making known to us, while still in this world, the infinity of matter, the immense grandeur of Nature, the heavens, the lands and the seas.

*Naturaे Discere Mores!*

Thanks again, Jason!

Yours very truly...Matt

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