

Niall Ferguson: The Destructive Power of Social Networks

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by Robert Huebscher

The conventional wisdom promoted by the developers of social networks was that they would provide immense benefits to society through faster and broader connectivity. That view was shattered by Niall Ferguson, who called services like Facebook and Twitter “crazy ideas gone viral, with deeply negative implications.”



Ferguson is a historian and teaches at Stanford. His views are generally regarded as politically conservative and he has often taken positions that specifically oppose those of the *New York Times* columnist Paul Krugman. He was the evening keynote speaker at the Schwab IMPACT conference yesterday in Washington, D.C.

Speaking from a historical perspectives, Ferguson said that human history has been dominated by the tension between social networks and hierarchies of all kinds. Indeed, that is the central theme of his most recent book, *The Square and the Tower: Networks and Power, from the Freemasons to Facebook*, which is available from the link on this page.

“The idea was that everything would be awesome if we are all connected,” Ferguson said, in regard not just to modern social networks, but to inventions such as the printing press.

“But that is a deeply suspect idea,” he said.

Giant social networks, like Facebook and Twitter, do not form an online social community. Instead, a large social network will “self-segregate” into opposing clusters, according to Ferguson. In the realm of politics, social networks have gravitated to become platforms for those with strongly held liberal and conservative views, with far fewer members offering centrist opinions.

A historical perspective

Ferguson said that the phenomenon of polarization was predictable, when one considers similar historical events.

To understand our time, he said, you must go back 500 years to the early 16th century, when the printing press became widely available. It allowed a greater volume of content to be produced and disseminated with a lower cost of communication.

The Mark Zuckerberg figure of that time was Martin Luther, the leader of the Reformation. Luther’s axiom, he said, was that if you could read the Bible and have a direct relationship with God, everything would be awesome. But what ensued was 130 years of conflict due to polarization. Half of the population wanted to reform the church, the other half didn’t, he said.

The most insidious manifestation of this polarization was in the persecution of those considered to be witches. The “witchcraft mania,” Ferguson said, was not just in Salem, Massachusetts; it swept across Europe.

Today we see a similar manifestation in the context of fake news that spreads faster than true news, which undermines our confidence in the media.

In the realm of network science, this process is called “preferential attachment.” When you create a large network, Ferguson said, new nodes (i.e., the people who become its members) are incentivized to join the already well-connected nodes. As networks grow they are not “flat,” he said. Instead, they are highly clustered around those members with “monopolistic” power; everyone else has relatively few connections.

Social networks evolve so that there are two kinds of members: users and owners. The owners become fantastically wealthy, he said. The users don’t realize that if the service is free, then they are the product.

Political implications

Networks are designed to maximize engagement, Ferguson said, and that favors moving people further out on the ideological spectrum. Studies have shown that liberals retweet content from other liberals, and conservatives do likewise. Moreover, Ferguson said that a tweet is 20% more likely to be retweeted if more emotional language is used. “This is why the political center is threatened,” he said.

“Most people are exhausted by this stuff,” Ferguson said.

One outcome could be the emergence of a third political party. “The two-party system is not written into the Constitution,” Ferguson said. Very few two-party democracies are left in the world. “One consequence could be that the exhausted majority will form a new party.”

The puzzle of America’s future is that there is a political center, but they don’t have a party, according to Ferguson. But he doesn’t think Michael Bloomberg will fill that role. Ferguson said it is too hard for him to reinvent himself as a Democrat and get the nomination. John Kasich has a better chance, he said.

Election outcomes can be predicted by social-network followers, Ferguson said. He presented data that showed how Trump dominated Clinton on Twitter and Facebook, in terms of their respective number of followers.

The same was true of England’s Brexit vote, he said, which revealed that there were two kinds of politicians: “those who understand Facebook and those who lose elections.”

“Too many political scientists don’t get the power of social networks,” Ferguson said.

Democrats have learned this and upped their game, he said. Nationally, there was a competitive bump in the House for Republicans in social network followers from the Kavanaugh hearings, but not in the competitive races. That was not true in the Senate, Ferguson said, which has moved more toward Republicans.

The Quaaludes of quantitative easing

The banking system is a form of network, Ferguson said. Prior to the great financial crisis, the banking system was highly fragile. “The banking network didn’t have the resilience that a better network would have.”

Specifically, the problem was that Lehman Brothers was a very important part of a cluster of financial institutions. That significance was underestimated by the Fed and Treasury Department, which didn’t understand the consequences of removing a central node like Lehman.

“That is the key insight that explains why the crisis was global,” Ferguson said.

Central banks are the hierarchical structures in the financial system, according to Ferguson. The Fed transcripts from the financial crisis show that the staff economists predicted a minor consequence, and it was then-Chairman Ben Bernanke’s knowledge of the Great Depression that was crucial to avoiding the banking runs of the 1930s. Bernanke understood that absolutely everything had to be done to protect the network, and that included measures like expanding the Fed’s balance sheet and its swap lines to increase liquidity, according to Ferguson.

Now, the financial markets are weaning themselves from “the Quaaludes of quantitative easing (QE),” Ferguson said. QE is best thought of as a volatility suppressant, like Quaaludes that were used to relax the financial markets and reduce volatility.

But the idea that we could “come off the meds” without increasing volatility is not just implausible, he said. It is “magical thinking.”

We are already seeing higher volatility as the Fed normalizes a return to pre-crisis liquidity levels. “This is a reminder of what volatility is like,” he said. The Fed will do another rate hike, especially considering the president is leaning on the Fed to reduce its independence, according to Ferguson.

There was a period of maximum central bank coordination after the Lehman failure, when swap lines were implemented. But then there was a policy divergence among the major central banks. Each began pursuing its own interests. Since then, the major economies have been putting themselves first. “It’s no longer a network that’s operating in sync,” Ferguson said.

As a result, the financial system is as connected and vulnerable as it was 10 years ago, he said.

China's role in the global network

Most of the post-crisis regulation was focused on bank capital adequacy. "But we are not in a radically different place," he said.

It is unclear what form the next crisis will take. The big question is what will be the unintended consequences of the trade war with China. Ferguson said the worst case would include the same knock-on effects as a U.S.-centered crisis.

China's massive credit expansion, which started in 2009, was crucial to avoiding another Great Depression, he said. That expansion facilitated the growth of a strong U.S.-China trade relationship, which Ferguson referred to as "Chimerica." But, he said, we are now seeing an end to Chimerica.

It's the classic case of an incumbent power confronting an entrenched power. The business and political elites in China are uncertain about how to respond to Trump.

China does not have a good retaliatory strategy to counter Trump's tariffs, he said. It thought it could target areas and industries in the U.S. where Republicans were vulnerable, and that it could defuse the trade war.

That was wrong, Ferguson said. China misread the situation. This war could carry on and expand into 2020. "China has no good options," he said. It can't depreciate currency because it would hurt all its citizens through inflation. Likewise, it can't dump its Treasury bond holdings, because the rest of the world wants them.

"This is the first real obstacle China has run into since joining the World Trade Organization in 2009," Ferguson said.

Fighting the social network addiction

What are the best ways to use social networks?

Fight the addiction, Ferguson said.

Detach yourself from the daily bombardment of noise. "The challenge is to be offline enough of the time to think and select what is worth reading," he said. "It is probably not on Twitter."

Read an old book, such as an autobiography. "They will help you to think," he said.

Social networks and the amount of time we spend on devices ruins relationships, according to Ferguson.

"We will look back and view smartphones the way we view cigarettes and the way we make them available to children," he said. "The damage is much greater than you realize, because it distracts you from the people near you." Real relationships are threatened by the phony relationships through phones.

"A revolution in manners is needed with respect to our personal phones," Ferguson said.

"A day with a great book is worth 365 days with social media."