

HOW WE SHOULD EQUIP OURSELVES TO THRIVE UNDER HIGH UNCERTAINTY

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

The Stockdale Paradox must be borne in mind but openness to ideas and creativity may prove vital

One of the interesting things about the New Year greetings that I received was that several of them prayed and wished for less uncertainty this year. Uncertainty is a given, at all times. Its degree and depth vary. After the financial crisis of 2008, uncertainty rose a notch higher. The pandemic and global response to it have pushed it several notches higher. Hence, the last column I wrote in Mint for 2021 conceded that the only certainty for the coming years was greater uncertainty.

Recently, Politico profiled Thomas Hoenig, former governor of the US Federal Reserve and his prescient warnings about the consequences of unconventional monetary policies that began to be pursued by the Fed under Ben Bernanke in the wake of the Global Financial Crisis of 2008. The article is worth reading. The important thing to remember on finishing it, though, is that the story remains unfinished.

Therefore, the prayers and wishes for more predictability and less uncertainty should be tempered with realism. I am reminded of the story of James Stockdale, a Vietnam War Veteran. He was interviewed by Jim Collins, the author of many books, most notably, *Good to Great*. Stockdale had survived severe punishment and torture while being a prisoner of war in Vietnam. He was awarded the highest Presidential award in the US for bravery. When asked a question on who did not survive torture and imprisonment, he answered pithily: "Optimists." Optimistic captives were wishful that their ordeal would end shortly, before Thanksgiving, before Christmas, etc, and when all these dates came and went without an end to their suffering, some lost heart and hope.

What Stockdale had told Jim Collins about the secret of his survival became famous as the 'Stockdale Paradox'. The paradox is this: "Never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be."

As things stand, we would need to remember and practice this lesson for the better part of this decade. Hoping for an end to uncertainty is not wrong, but one should be clear-headed about its prospects. The covid pandemic and its handling are not the only variables to contend with. There is also uncertainty associated with the green transition. There is also the aggressive pursuit of geopolitical goals by nations. Therefore, we may have to learn to live with it.

What else could we—especially those who are influential decision-makers in various spheres—do to deal with this uncertainty, besides imbibing and implementing the Stockdale paradox?

First, one has to be open to many different ideas, even unconventional ones. Conceptual clarity has to be supplemented with contextual understanding. For subordinates, workers and colleagues to come forward with ideas, we could do many things. But one that stayed with me was what Jim Collins wrote about great leaders. They looked through the window to the outside

world when they had to attribute success and looked at the mirror when they had to attribute failure. The most glorious example of this was a letter that Dwight Eisenhower wrote and did not have to release. As America's top military commander during World War II (about a decade before he was elected president), he had prepared a statement to share with the US public if the landing of Allied forces at Normandy beach in France had failed. In it, he had praised the valour of soldiers and leadership of commanders, and also taken full responsibility for the failure of the mission.

Just as faith and realism were key ingredients for outlasting tough times, a combination of humility and confidence were the hallmarks of successful leadership, as Jim Collins documents in his book. During uncertain times, one has to build buffers. In fact, that is what many businesses did during the pandemic. Globally, diversifying and securing supply chains were considered both urgent and important. However, although many businesses had planned to relocate their facilities away from China or re-shore them, most of those plans remained unrealized well into 2021. What they did for supply-chain resilience, instead, was to build up inventories and create more inventory-carrying capacity, physically and financially.

While the law of unintended consequences is as ubiquitous as Murphy's Law, uncertain times confer on it a particular advantage. Therefore, one has to be flexible enough—intellectually, above all—to reverse course or abandon a chosen path. Plans with lower-cost or costless exit options are considerably more preferable than irrevocable ones.

Uncertain times offer us an ideal breeding ground for creative thinking. The need for flexibility creates room for inventiveness in approaches. Charles Duhigg, in *The Power of Habit*, offers a revealing illustration. Paul O' Neill traced the cause of infant mortality in the US all the way to teacher training in high schools.

One of the most difficult periods in American history was the Great Depression of the 1930s. But much creative progress happened in that period. Even today, our responses to difficult times will shape the durability and depth of our success in easier times.

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