



Crisis Actors and a Reichstag Fire

JOHN MAULDIN | July 27, 2016

This week your *Outside the Box* is from my friend Ben Hunt, who writes his letter under the title *Epsilon Theory*. This edition is a little darker than usual, and certainly more of a think piece. A central argument that Ben makes in *Epsilon Theory* is that it is *Narrative* that is the driver of politics, economics, and social interaction generally. The Narrative is what we all (mostly) believe and act upon. Investors generally believe that quantitative easing is going to result in a rising stock market, so they act as if another round of QE and continued low or negative rates are good for the equity markets; and thus the game goes on.

Ben wraps his discussion of narrative in game theory, at which he is something of an academic expert. And this week he talks about “crisis actors,” those people who use Narrative to suggest to the masses (that would be us) outcomes they think are positive. But of course, the crisis actors have both good intentions and bad ones. And ultimately their intentions don’t matter so much as the creation and maintenance of the Narrative to which we all adapt and continue to support ... until that Narrative breaks, sometimes very profoundly and abruptly. Or at other times a Narrative might just fade away with the shifting social seasons.

A key point Ben makes is that to fight the Narrative can be self-destructive. Fighting the Fed just because you think what it is doing is wrong doesn’t make any sense from a personal game theory perspective: the purpose of playing the game is to make sure that you get the most possible benefit.

But at the same time, we must try to understand the power of the Narrative and how it works and to have some discernment as to when the Narrative might no longer work, and move to the sidelines. Or possibly even figure out how to make the *Sturm und Drang* of the Narrative actually work in our favor.

Ben likes to start his letters off with a bunch of obscure quotes. (I often do as well, but he uses far more quotes and interesting ones, too – I have no idea where he comes up with some of this stuff, but it’s a fun few pages). The real work starts on about the fourth page of this essay. I think you’ll find Ben’s letter to be very interesting.

Rather than add any personal comments, I think I’ll go ahead and hit the send button and let you go straight to Ben’s essay. Have a great week.

Seeing *Narratives* everywhere he looks analyst,

John Mauldin, Editor
Outside the Box

Crisis Actors and a Reichstag Fire

By Ben Hunt, Ph.D.

Epsilon Theory, July 26, 2016



Man in Bar: Tomorrow, I'm gonna be a hero.

Gideon: I'm sorry?

Man in Bar:

You may just be a patsy, but you're an important one. In fact, I don't think I've ever met a bigger crisis actor than you before. ... This is for our country!

[Man in Bar shoots Gideon in neck, killing him]

— Mr. Robot, “eps2.0_unm4sk-pt1.tc” (2016)

Göring: Why would some poor slob on a farm want to risk his life in a war when the best that he can get out of it is to come back to his farm in one piece? ... It is always a simple matter to drag the people along, whether it is a democracy or a fascist dictatorship or a Parliament or a Communist dictatorship. The people can always be brought to the bidding of the leaders. That is easy. All you have to do is tell them they are being attacked and denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same way in any country.

— *Gustave Gilbert, interview recording of Hermann Göring for “Nuremberg Diary” (1947)*



Hermann Göring and the Nazis didn't burn the Reichstag down in 1933. They left that to a simpleton Communist patsy (that's him in the photo; quite the ur-terrorist, no?). But Göring and the Nazis used the Reichstag fire as their excuse to arrest thousands, establish Hitler as the Führer, and unleash a decade-plus of fascist horror on Germany and the world. History is rhyming today, as it always does.



Hynkel, the dictator, ruled the nation with an iron fist. Under the new emblem of the double cross, liberty was banished, free speech was suppressed and only the voice of Hynkel was heard.

— *Charlie Chaplin, "The Great Dictator" (1940)*



Just need a little hair dye on that Erdogan moustache, and I think we're good to go.

Harry Angel: You're crazy. I know who I am. You're trying to frame me. You're trying to frame me. Cyphre, I know who I am. You murdered them people. I never killed nobody. I didn't kill Fowler, and ... and I didn't kill Toots, and I didn't kill Margaret, and I didn't kill Krusemark, I didn't kill no one!

Louis Cyphre: I'm afraid you did, Johnny.

Harry Angel: My name's not Johnny!

Louis Cyphre: All killed by your own hand. Guided by me, naturally. Frankly, you were doomed from the moment you slit that young boy in half, Johnny ... for twelve years you've been living on borrowed time and another man's memories.



— Alan Parker, “Angel Heart” (1987). My favorite De Niro role, worth watching just for the fingernails and the way the man eats an egg.



I shouted out,
Who killed the Kennedys?
When after all
It was you and me.

— Jagger and Richards
“Sympathy for the Devil” (1968)

Four people died at the 1969 Altamont concert, including a front row murder during the Stones set. It’s fun to strut on stage and sing about this stuff, until the Hells Angels show you what you’re singing about.

When you strike at a king, you must kill him. — *Ralph Waldo Emerson (1803 – 1882)*

Omar: Come at the king, you best not miss. — *David Simon, “The Wire” (2002)*

Everything I know about politics, I learned from “The Wire”. That and a Ph.D. in Government from Harvard. But mostly “The Wire”.



Sam Spade: I hope they don't hang you, precious, by that sweet neck. Yes, angel, I'm gonna send you over. The chances are you'll get off with life. That means if you're a good girl, you'll be out in 20 years. I'll be waiting for you. If they hang you, I'll always remember you.

— *John Huston, “The Maltese Falcon” (1941)*

I think it's a guy thing, this willingness to be a patsy for a cause, be it love, or lust, or greed, or religion ... or a political party. Don't be a patsy. Be a Sam Spade. Be an Omar.

A “crisis actor” is a familiar theme in all sorts of conspiracy theories. Basically, the idea is that terrorist attacks and the like are false-flag operations, where nefarious government agencies kill their own citizens, directly or indirectly, in order to instill fear and maintain popular support for the smiley-face authoritarianism of the modern State. Crisis actors are the patsies hired by the agencies to weep and wail for the cameras, creating the initial Narrative of terror and supporting the follow-on Narrative of steely government resolve to track down the supposed bad guys.

As per usual with conspiracy theories, the specifics of their claims about crisis actors are nonsense. It's not "the same girl" crying at Newtown and Orlando and Nice, as the photos on conspiracy websites claim. CNN isn't a secret division of the CIA. Neil Armstrong really did walk on the moon.

But as also per usual with conspiracy theories, they're not thinking big enough. Crisis acting isn't found in the secret construction of a crime scene. It's found in the public construction of a social Narrative. It's found in the public statements of the Missionaries (to use the game theory term) who create Common Knowledge — what everyone knows that everyone knows.

Hermann Göring and Erdogan are crisis actors, pretending that the Nazis or the Islamists are the only force standing between the Motherland and political traitors within and abroad, pretending that their "emergency policies" are anything less than a permanent seizure of political control.

It's oh so easy to look at what's going on in Turkey and shake our heads and tsk-tsk that awful Erdogan and the awful anti-democratic things he's doing over there. Because it IS awful. What's happening today in Turkey is absolutely a carbon copy of what happened in Germany in 1933 with the Reichstag Fire, and every Western president and prime minister and chancellor and secretary of state and foreign minister — all of whom are mouthing the same diplo-speak pabulum about the Islamist fascists of 2016 that their counterparts mouthed about the Nazi fascists of 1933 — will have the same stain on their souls. Not that I'm sure many of this 2016 crowd have a soul left to stain. As Gertrude Stein famously said about Oakland, and I'm saying about these crisis actors, there's no there there. Whatever human beings they used to be, it seems they've been absorbed by their public cartoons, which is really just ... sad.

But look homeward, angel. Look homeward, too.

Paul Krugman and Tom Friedman and Jim Cramer and their media Missionary kin are also crisis actors, pretending that the Brexit vote was a deluded, colossal mistake perpetrated on innocent UK voters by economic traitors within and abroad.

Janet Yellen and Mario Draghi and their central bank Missionary kin are also crisis actors, pretending that their "emergency policies", now more than seven years old, are anything less than a permanent political shift in the global allocation of money and credit.

I mean, can't we just stop these charades surrounding "the Horror of Brexit" and "data dependence"? Can't we just admit that it's all an exercise in — to use the Fed's terminology — "communication policy", where words are chosen for effect rather than to convey true belief or opinion ... or what we would call in normal human interaction "lying"?

Of course we can't. Whether you're Göring or Erdogan or Yellen or Draghi, once you start weaving that tangled web of deception, you can't un-weave it. Once you sell your soul to the Narrative Devil you can't buy it back. Erdogan can't walk his purge back even if he wanted to. Yellen can't walk her dot plots and forward guidance back even if she wanted to. Draghi and Kuroda are never going to go on stage and shrug their shoulders and say "oops, sorry 'bout that." At least St. Louis Fed Governor Jim Bullard didn't have to flee to Greece for his "failed dot plot coup".

And yeah ... I understand that I'm tarring central bankers and their fellow travelers with the fascist brush. Because the road to hell is paved with good intentions as well as bad. Because there IS a moral equivalence between the means used by Göring and Erdogan to accomplish their ends and the means used by central bankers to accomplish theirs. Do the differing ends and the better intentions matter? Of course they do. And that's why Ben Bernanke gets \$250,000 per speech and Hermann Göring got a cyanide pill in his prison cell. But the shared means of false Narrative and crisis acting matter, too, because they create a world of profound inauthenticity, where ALL public speech is deemed suspect and self-serving — because it is! — and where ANY public speech, no matter how demagogue-ish or false or borderline insane, is deemed functionally equivalent to any other speech. Because it is. **It's what I call *Gresham's Law of Narrative*: inauthentic speech drives authentic speech out of circulation, just like bad money drives good money out of circulation.** If the function of public speech is to persuade rather than inform — and that's *precisely* the function of forward guidance and every other status quo political statement of the past seven years — then it's just comical for those same status quo institutions to complain now that their political opponents are “lying”. No, they're just more effective persuaders. They're just better liars.

And yeah ... I'm saying that the rise of Trump and Farage and Le Pen and their ilk is a direct consequence of the communication policy toolkit and the crisis acting employed by every Western central banker and politician over the past seven years. That's exactly what I'm saying.

As for us investors ... we're the “poor slob on a farm” that Hermann Göring talks about in his prison cell interviews during the Nuremberg Trials. We don't want to go to war, whether it's a real-life war like Erdogan is waging or an ersatz war like Yellen and Draghi are waging. As Göring said, the *best* outcome for us is that we get home to our farms alive. Why in the world would we sign up for that?

We sign up for it because we are biologically hard-wired over millions of years and socially soft-wired over tens of thousands of years to respond to Narrative. We are social animals in the scientific, technical sense of the phrase, and we — along with our termite, ant, and bee cousins — are the four most successful multi-cellular animal species on Earth because of it. The hallmark of what biologists call a eusocial species isn't just that it communicates. It swims in an ocean of communication. It is evolved to be immersed in constant communication. How many waking minutes of every day are you away from some sort of message from other humans? Five? Ten? For me it's however long my morning shower takes. That's about it. Probably about the same amount of time that an ant or a termite goes without a message from another ant or termite. That's the human animal for you ... basically a giant termite with fire. As a eusocial species, we can no more ignore a message from Janet Yellen than an ant can ignore a pheromone from its queen. Not only can we not ignore it, but it WILL move us, in some small way, at least.

Thankfully, though, unlike an ant we have self-awareness. Or at least the capacity for self-awareness. We can recognize that this *process of Narrative influence* is happening to ourselves and to others, and we can resist *if we choose to*.

Now, we will probably go along with whatever the Narrative is suggesting we do, because that's usually the smart play. We know that there are millions of other ants hearing the queen's message, and we know that each of them will be moved by her message. Plus — and this is the big insight from game theory, the engine for all of these Common Knowledge behaviors — we know that all of the other ants are thinking about US in exactly the same way we are thinking about THEM. Knowing *that*, it is entirely rational for each of us to act AS IF the queen's message is True with a capital T.

But acting AS IF doesn't mean acting AS. That's what the patsy does. The patsy is the guy who believes, deeply madly truly, that the queen's message is True with a capital T, forever and ever, amen. The patsy is the guy without self-awareness. The patsy is the guy who doesn't recognize that he's being played. As the old poker saying goes, if you've been playing cards for half an hour and you don't know who the sucker is ... it's you. **The entire reason I write Epsilon Theory is to do my small part in preventing people from becoming suckers, from accepting Missionary statements at face value, from believing in their heart of hearts that maybe $2 + 2 = 5$ and that maybe the Emperor is wearing a fine suit of clothes after all.** The inescapable human Truth, of course, is that we are ALL being played ALL the time. But if you're self-aware, you can resist. You can resist in your heart even if you comply in your behavior, and you can resist in your behavior if and when you choose. You know that you are being played, and you choose to go along with the game. For now.

Okay, Ben, all very heroic and heartfelt, but what do we do?

Well... here's what we don't do. We don't "fight the Fed", and we don't stick our head in the sand and pretend that the status quo Missionaries can't construct highly investable rallies. You know, like the rally we're experiencing right now. But by the same token we don't allow ourselves to become a patsy for the Fed or the ECB or the DNC or the RNC or the WSJ or the NYT or CNBC or whatever other institutional collection of initials asks you to play the fool. We should never *trust* the Fed or any other Missionary, because one day we're going to need to, if not fight them, then at least take ourselves off their battlefield.

I think what we need to DO is identify the potential political and economic catalysts coming down the pike and figure out which of these are potential Humpty Dumpty moments — crack-ups in the current system of global credit allocation that are too large for the central banks to piece back together again with their crisis acting and Narrative creation efforts. Then we need to track that Narrative effort so we can get the timing right on these massive catalysts. Because as any coup-launcher or Fed-fighter or volatility-embracer knows, if you're wrong on timing ... you're just wrong.

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