Edition No. 15

Pick Your Reality

bergsicht

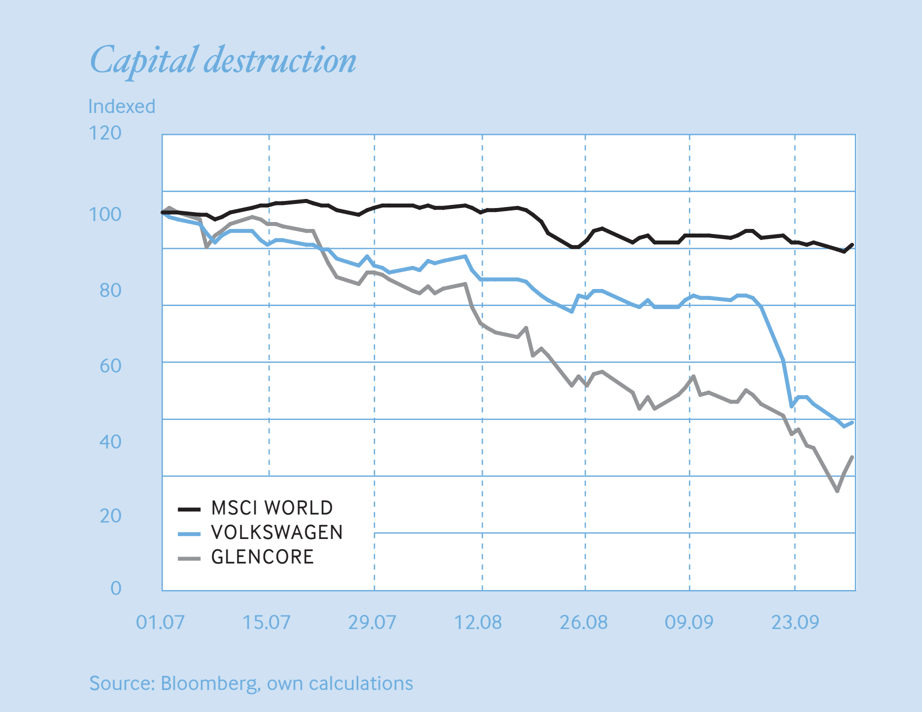
CHAPTER 1

VW and Glencore – unmasked, exposed or undone

"We take nothing at face value, and we would put nothing past anyone". Such was the decidedly sceptical-sounding slogan under which *bergsicht* began its publishing activities some two years ago. Interpreted by many as a subjectively understandable misanthropic response to the vicissitudes of the preceding years, this stance is now increasingly turning out to be one of the few viable alternatives for survival and intellectual self-assertion in a strangely illegible world. We live in an age of co-existing and contradictory certainties, and the "reality" that at first seems most plausible – the one touted by mainstream opinion – often proves to be skating on very thin ice as far as the facts are concerned. What from one angle might seem real, possibly right, perhaps even true, can – in the selfsame moment, when seen in a different light – suddenly dissolve from putative veracity into a completely unfathomable primordial soup of imponderables. The VW Group has undergone exactly this kind of transformation in the last three weeks, and Glencore, one of the world's leading commodity producers and traders, has suffered a similar reversal of fortune over the same period.

One option for reflecting the way things stand is famously to be found in market prices. As long as some degree of tradability exists in the area under discussion, market prices have the advantage, by comparison with many other methods of capturing reality, of *a priori* combining within themselves two aspects – indeed, to put it more precisely, two completely counterposed perspectives – namely, the aggregated opinions of those willing to buy and the aggregated opinions of those willing to sell. When observed over time, market prices additionally mirror the dynamic changes in the marginal utility of each contending party. Market prices thus reflect both the totality of information available at any given point in time and the state of market participants' interpretations. Markets are undoubtedly the most efficient mechanism for dealing with shifting realities, and the examples of VW and Glencore mentioned above show just how dramatic a turn such dealings can take. The two companies came a cropper for very different reasons, but between the time "before" and "after" (i. e. in the space of a single quarter!), we have witnessed capital destruction in the order of USD 90 billion; and as things stand today, it is not beyond the bounds of possibility that one or the other company could implode altogether, adding a further USD 75 billion to the cumulative tally of capital destruction.

Now, you might object and say that, well, stock exchange slumps are nothing new. The risk of a market reading randomly turning on a sixpence is ever-present, and we have long been aware that sometimes the flap of a butterfly's wing on the other side of the globe, a so-called "tipping point", is all that is required to trig-



Capital destruction

Source: Bloomberg, own calculations

ger an earthquake on the trading floors of Frankfurt or London. This is undeniable, and in the case of Glencore, we would also share this interpretation of events: Reality A, a growth-orientated, globally positioned and aggressively managed commodities business, is superseded by a Reality B following a routine investigation in which two financial analysts do no more than ask a few simple questions – such as what effect the debt associated with Glencore's acquisition policy (Xstrata) might have on the company's balance sheet and income statement if commodity prices continue to fall. Many others had no doubt previously asked themselves similar questions, but buyers and sellers of Glencore shares, though pursuing diametrically opposed interests, were yet to realise their import. This is indeed nothing new: chasing trends, false senses of security, horror at the emperor's non-existent new clothes, panic selling or bullish buying – these too are part and parcel of markets, engendering their volatility and rendering them attractive to all those scenting greater marginal utility in risk-taking. You might also call them speculators.

Things are different with VW. The accusation emanating from the USA against the German automobile manufacturer is that for years, they have systematically been deceiving the public and the relevant authorities by *deliberately fabricating* a false reality – VW taught its diesel cars to behave differently under test conditions than in real [sic] day-to-day operation. We can confidently file the Glencore case under "unmask, expose – and then re-examine" in that we acknowledge that things do indeed look a little different from what was first imagined. In VW's case, however (if the accusations are correct), we are dealing with the manufacture and maintenance of a fictitious reality through the use of a "defeat device" – a fictitious reality that for quite some time was perceived as a valid Reality A and, as such, was ultimately responsible for both the very real sale of units in the order of many multiples of millions and very real revenues in a similar order of magnitude of billions. As rock-solid reliability, honesty and quality not only underpin VW's brands but are also the wind beneath the wings of Germany's industrial reputation, the accusations do more than strike at the very heart of the auto group; they shake the country's perception of itself as a manufacturing powerhouse on a wider scale. Bereft of these characteristics, the world champion exporter appears undone, its spine ripped out, as it were. Reality B is brutal. What now is going to differentiate the Germans from all those competitors around the world from whom we have, as a matter of principle, taken nothing at face value since time immemorial and past whom we would put nothing?

This edition of *bergsicht* avails itself of the topical example of VW and the "reality" of the persistent risk of deflation (as peddled by the IMF and the central banks) in order to address the question of deliberately altered "realities". We detect "defeat devices" in this arena, too. It is difficult to overestimate the gravity of what, in our eyes, is a complete misreading of the situation. A gospel fervently preached by so-called leading economists and lapped up by the mainstream faithful as the ostensibly most plausible "narrative" is being proselytised through the major central banks' grim insistence on a policy of ultra-low interest rates, the effects of which are being felt in every conceivable distortion of the real economy and the financial sector. The Swiss National Bank, no less, is similarly straying into this way of thinking with its exchange rate policy propped up by negative interest rates. What if this purported reality looked fundamentally – or even only slightly – different?

CHAPTER 2

Showing the best side of spotless mess tins

The inherent weakness of humans' instinctive decision-making mechanisms that function via smell, taste and perhaps even a sixth sense is offset by a sophisticated array of screening procedures to which people, objects and processes are subjected. Assessments, inspections and quality control are an intellectual compensation, as it were, for the march stolen on humans by animals within the limited ambits of their lives. The problem with any and every test resides in the fact that it elicits anticipatory effects in the party to be probed, as they too are endowed with intellectual faculties. People want to show their best side. VW's mega-problem can be fundamentally reduced to this anticipatory behaviour, not that this mitigates it in any way.

Wanting to show your best side: this is why Swiss Army knives and mess tins were spotless on inspection day during national service, why you corner particularly carefully as you complete your driving test, why you smarten up the balance sheet with some transaction or other before the end of the financial year, why you brush your teeth especially conscientiously before going to the dentist, for once even using the floss you are otherwise so happy to neglect. However you slice it, tests never reflect reality. As a rule, all we see is a sugar-coated image – unless, of course, exam anxiety throws a spanner in the works.

The existence of a "test reality" in turn prompts the examining party (who is likewise not entirely devoid of common sense) to employ countermeasures. These consist of spot checks, concealed radar traps, veiled surveillance tactics, solicitations to cooperative interplay between examiners and examinees, or recourse to (mostly state-instituted) coercive measures. Whatever each side gets up to, however, such massaging can never completely prevail, nor yet will fact-finding strategies ever fully get to the bottom of things. A state of equilibrium exists between examiners and examinees, between those attempting to apply the lipstick and those militating to see beneath it, that never quite captures "reality" but instead corresponds to a mutually accepted convention of what one is prepared to portray as reality.

Examinations, accreditations and certificates are beguiling; they reinforce the illusion that things are done and dusted, i. e. that there is a congruence between test results and lived reality; that an ever tighter network of checks might improve matters is a further component of this fantasy. The regulatory mania to which Western societies have, for some considerable time, fallen prey, the imposition of ever more unrealistic thresholds and, most recently, in a flood tide carried across the Atlantic from the USA, the *criminalisation* of business and its exponents by means of violated standards all belong to this illusory notion, which, in turn, is rooted in the naive assumption that anything is possible. The emission thresholds for diesel engines are a perfect case study for the economic costs of such an illusion.

Due to its different mode of operation, the diesel engine is superior to the petrol engine in terms of energy efficiency; if saving energy is the overriding objective, then diesel engines should be preferred to petrol-burners. The "price" paid by diesel motors for this advantage in energy efficiency is the emission of harmful gases, especially nitrous oxides. These can be eliminated, either by installing a storage catalytic converter (which also uses energy) or by adding urea ("AdBlue") for aftertreatment of the exhaust gas. Both processes are expensive and in either case, setting very low thresholds means that small diesel motors are not worth the candle – the more energy-intensive, and thus less environmentally friendly, petrol engines come out on top. Economic costs resulting from excessively low nitrous oxide emission thresholds have to be weighed against the economic costs incurred through the increased use of petrol engines. We do not wish to adjudicate here on whether imposing extremely low thresholds, which effectively excludes a fundamentally reasonable technology, is intelligent in the wider scheme of things; nor do we wish to take a view on the suggestion that nitrous oxide thresholds in the USA are motivated less by the notion of environmental protection and more by industrial policy considerations; traditionally, hardly any diesel engines are produced for cars on the other side of the Atlantic. We do however remain entirely unimpressed by the arguments of the *Economist*, which, in its edition of 26 September 2015 devoted to the topic, estimates that nitrous oxide emissions cause up to 58,000 premature deaths in the USA annually, without – and thus flying entirely in the face of economics, it should be noted – taking into account the presumably equally regrettable additional deaths arising from the lower energy efficiency of the petrol engines that benefit from such thresholds in the first place. The situation is unfortunately not as simple as all that; the *Economist* ought to be aware of the concept of the "trade-off".

But let us return to "test reality". For all the exactitude of thresholds, here too, there is the *grey zone* of a state of equilibrium between those applying the makeup and those seeking to wipe it away. The root cause is to be found in the homogenisation of test results for vehicles of different models and manufacturers. In order to achieve uniformity, conditions must be aligned as closely as possible. In most countries, consumption and emission data are thus recorded without activating any additional electrically powered devices such as air conditioning, lights, electric windows, radio, etc.; the wheel friction is set artificially and the air resistance is added as a theoretical quotient. Or to put it another way: *artificial conditions* – or certainly, conditions that no car is ever likely to encounter – tend to prevail in all these tests. It will come as no great surprise to the jaundiced eye of a worldly-wise observer that motor car manufacturers "primp and preen" their vehicles for this beauty contest. People want to show their best side. That's just a fact of life.

CHAPTER 3

Bad and worse narratives

This said, there is nonetheless a world of difference between primping, preening, prettifying and polishing – and deliberate deceit through the use of a defeat device. That a car can be taught to recognise when it is under test conditions is already astonishing. It can perhaps be justified, in that doing so enables the unnatural test conditions to be created efficiently, but to then go on to use a programme to modify the engine settings and alter the exhaust treatment in such a way as to inject a quantity of urea that would never occur under normal operating conditions is definitely taking things a step too far. The US thresholds would, it seems, never have been reached without this rather peculiar "test reality". On the other hand, a market launch for diesel cars with elevated urea consumption would never have been conceivable, as consumers cannot be expected to be constantly topping up with AdBlue.

What interests us about the introduction of an "enhanced test reality" are the circumstances in which a global concern can get so carried away that it can allow such dirty tricks to be hatched, tolerated and even cultivated under its own roof. The version of the narrative preferred by mainstream journalism – a tale of "greedy managers" and/or "merciless competition" in the neoliberal system – is not entirely satisfactory as an explanation, in our opinion; it might of course be true, but it is simultaneously a little *too* glib. If that had been the case, a relatively large number of people throughout the organisation would had to have known about it, and for that to have remained a secret – as indeed it had to – is extremely improbable. It is more likely that only a *very small circle of initiates* was involved and that the rest of the company were deceived. So whose brainchild was it? What spurred the conspirators on? Did they get a special bonus, about which only a select few at the top were in the know? Or did they act completely independently, for the simple joy of using their engineering skills to outwit the regulator? Did they perhaps underestimate the problem, assuming (presumably correctly) that "everyone else" was doing it too, and consoling themselves with the false hope that everything would stay under the radar? Or did they – and this may include those right at the pinnacle of the firm – see themselves as "untouchable"? After all, VW is synonymous with Germany, and Germany is a close ally of the USA, and the USA would never dream of attacking Germany... In any case, from a game theory perspective, all the options listed above ultimately come under the heading of "cooperative" approaches for examinees who simply wanted to exploit to the full the latitude allowed them, and made the mistake of overstepping the mark – negligently, or at worst, with a little indirect intent.

Some distinctly less palatable options that go beyond greed, "unbelievably brutal global competition" (Schäuble), frivolity and naivety are also conceivable, however, and, as *bergsicht* does indeed take nothing at face value and puts nothing past anyone, we wish to list these as well – as a purely hypothetical exercise, you understand. These too may correspond to a reality, although it would be a reality we would rapidly consign to oblivion and scrub from our minds. If it were indeed the case that only a very small set of employees was in fact aware of the possibility that the control software of diesel cars could be manipulated in the way posited, it would also be conceivable that they were given this task *by a third party*. When events such as these strike at the heart of a global concern – indeed, an entire industrialised nation – with such pinpoint accuracy, the possibility of an uncooperative agent acting in bad faith cannot *a priori* be excluded; we sincerely doubt that the many and various secret services of this world content themselves with merely collecting data and listening in on telephone conversations. We certainly do not wish to cast aspersions, but there is no shortage of candidates who might seek to deliberately discredit VW, and Germany as an industrial player, starting with a once proud European car-producing nation that has been serially humiliated, through the country with more security agencies than any other, to an up-and-coming emerging economy that also has ambitions to climb to the top of the car manufacturing heap. Indeed, in the specific case of VW, an *internal cabal* could even have meant that power play ended up taking precedence over the wellbeing of the object of desire.

In a case of this complexion, the VW executives would simply have neglected to properly scrutinise the real reasons for the glad tidings that the US emission thresholds had been achieved. They would not have even reacted appropriately when the company's US management was alerted to the question marks raised on this issue. As a matter of fact, this is exactly what happened in May 2014, when an NGO called the International Council on Clean Transportation (ICCT), working in cooperation with West Virginia University (WVU), spotted discrepancies between the test results and real-world emissions of VW diesel vehicles in California, and the company's US executives were informed of these by the Californian authorities. The resulting recall programmes and ancillary measures were conducted in such a half-hearted manner that one is bound to conclude it was a case either of recklessly scant comprehension or deliberate negligence.

We concede, though, that such "wild surmise" has a whiff of conspiracy theory about it, and in this specific instance it has also been somewhat overtaken by the extremely prompt admission by Winterkorn, the CEO of VW who has since "resigned", that he had acted improperly and was now placing himself at the disposal of US investigators in an entirely correct and cooperative manner. However, such "admissions" are a defensive reflex in an otherwise highly asymmetrical affair. Assuming Winterkorn wished to save the US market for VW in some way or another, there was absolutely nothing else he could have done after being charged by the Environmental Protection Agency (EPA) but confess, confess and confess some more – possibly even to things of which he had no knowledge at all, but probably ought to have had.

One would hope that some light would be shed in this respect, but for that to happen, the focus of the investigation would probably have to be moved to

Germany to prevent litigation tactics that are standard on the other side of the pond from creating a *judicial reality* that, while a far cry from the truth, is ultimately a comfortable compromise for all parties. Under continental law, there are also enough leads arising from the current accusations against VW for the *German judicial system* to act independently and on its own authority. Criminal elements and impulses are certainly in play here; how many, and from whom, is a matter that should be ascertained by Germany itself, rather than being left to a competitor and possible opponent in a not terribly cooperative game. In a world of co-existing and at times competing realities, we believe proactive intervention to shape outcomes is imperative; standing on the sidelines as a spectator is not enough.

Whether as a wildly implausible story, or merely a negligent or indirectly intentional connivance in an (over-)stretching of measuring criteria, VW illustrates perfectly what dimensions a decision to accept co-existing realities and/or base one's edifice on a false reality can assume. Before addressing the second example below, we wish to take stock of a few general conclusions:

- That differences exist between test reality and lived reality is a well-established and incontrovertible fact. Tighter monitoring networks only partially mitigate this problem and are unquestionably freighted with costs that cannot simply be ignored.
- What is new in our day and age is that modern information technology can be used to construct – on a grand scale – fictitious realities that are capable of confounding tests and monitoring systems to a large extent and for long periods of time. Fiction or no, real events in the form of car sales or the like may arise from such fabrications.
- The possibility of becoming, either as a person or as a company, the victim (or indeed the perpetrator…) of machinations of this kind represents a new and extremely serious (governance) challenge.
- The thought experiment introducing non-cooperative (i.e. maliciously motivated) variants significantly extends the scope for possible interpretations of processes and events. Similarly imaginative risk assessments must therefore be conducted and prevention strategies concocted.

CHAPTER 4

Deflation – really a reality?

A testbed is to cars what simulation systems and data sets/series are to the state of the economy and the actions taken as a result of it. We all like to work from the assumption that data reflect "real" reality. In the following, we shall attempt to demonstrate that a fictitious reality can exist even here, and that here too, real situations of immense scale can be constructed on the basis of this fictitious reality. We shall not stop there, however, but instead sketch out an alternative reality of our own – and draw appropriate macro-economic conclusions.

In the lead-up to the International Monetary Fund's (IMF) 2015 annual meeting in Lima, Managing Director Christine Lagarde once again issued her unqualified affirmation of the central banks' ongoing loose monetary policy. She stated that there was still a "drag" on the global economy, which was unsatisfactory, and that global growth would "likely be weaker" in 2015 than it had been in 2014. In essence, Lagarde called for a continuation of ultra-low interest rates for at least a year, bolstered by robust investment on the fiscal side, further improvements in banking supervision, and an extension of oversight to the shadow banking sector. Oh, and lest we forget, this, she said, would require "strong leadership and global cooperation".

Stripped of the familiar jargon, Mme Lagarde's ringing endorsement is a very precise recapitulation of the "most plausible narrative" concerning the global economy and monetary policy as it has been told for years: cyclical and structural deficits are hampering consumer demand, the upshot of which is a reluctance on the part of investors combined with generally insufficient growth. The tools available to combat this include ongoing stimulus through cheap money and capital, allied with forced investment by state exchequers; the banking system, and to an increasing degree the entire financial sector, are being instrumentalised in this state-run economic policy. The notion that consumption is too low is closely connected with warnings of a *deflationary spiral*, which are similarly used as a *ceterum censeo* by the central banks. "Deflation" has long since ceased to be merely one of many macro-economic phenomena. It has become an *invocation* of all that is coming to pass in monetary and fiscal policy around the world and all that should, if Lagarde & Co. are to be believed, once again be extended. Deflation is the core, the prerequisite of a *posited reality.* If it did not exist, much would presumably go disastrously wrong.

As we at *bergsicht* take nothing at face value and would put nothing past anyone (ultimately, not even that an entire economic mainstream might be barking up the wrong tree), we shall now attempt to recount a somewhat different (but to our ears, equally plausible) economic narrative – to construct another reality. Put simply, we flat-out *dispute* the existence of *deflation risk*. According to current economic orthodoxy, deflation, and/or the threat of a deflationary spiral, is linked to a demand problem that arises when consumers expect to be able to purchase the goods they are seeking at a better price with the passing of time, thanks to an aggregate decline in demand. They consequently forgo consumption (i.e. they save) and wait until their expectations have had the desired effect and the goods have indeed become cheaper; at which point the same set of expectations is once again applied, consumers hold back, and behold, the spiral has begun to turn. Such conditions are a double bind for suppliers, in that their turnover slows while pressure is simultaneously exerted on their margins. Economies of scale can no longer be exploited, and instead invert; over time, suppliers can no longer compete and go broke. Employees lose their jobs and, as employees are simultaneously consumers, their absence reinforces the *depressive* mood. This is a key word: the narrative of deflation risk ends in a depression. And experience teaches us that depressions generally lead to wars.

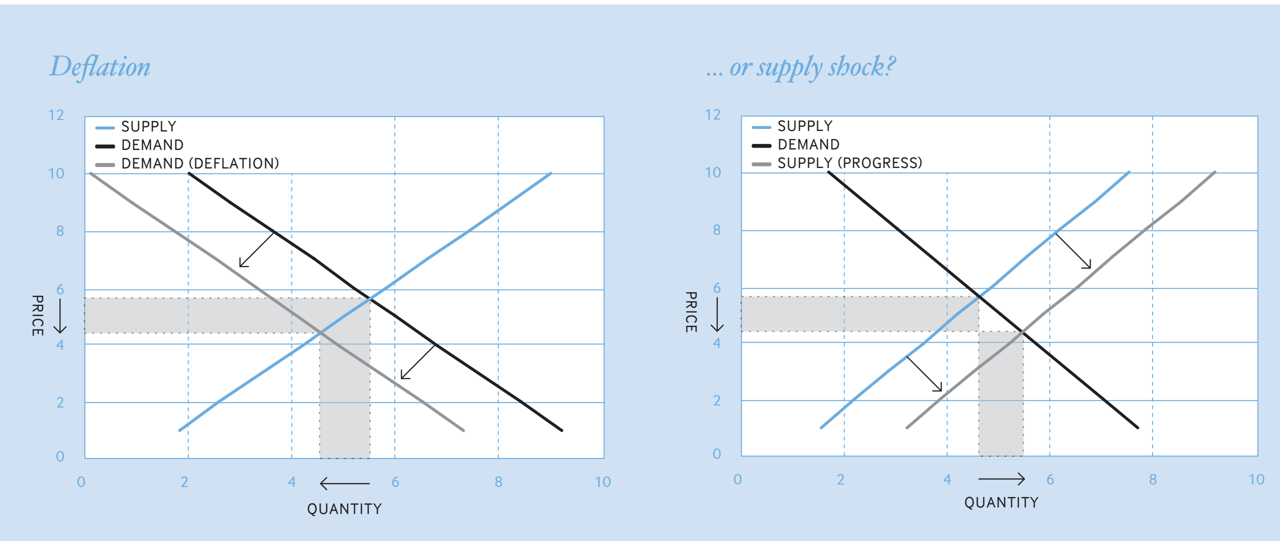
So what is deflation? Negative expectations arising from distortions of monetary and real value on the demand side, accompanied by medium and long-term capacity distortions on the supply side. Such is the conceptual world, the "reality", inhabited by Mme Lagarde, Ms Yellen, Mr Draghi and numerous others. It is the intellectual template of scholars such as Paul Krugman, Joseph E. Stiglitz, Larry Summers and many more, and it is the mainstream opinion propounded by most media outlets, with the *Financial Times* leading the charge; it is unfortunately even occasionally discernible in the *Economist*. Quantitative easing, euro bail-out policies, euro investment funds and every possible flavour of *dirigiste* scheme are all built on the perceived "reality" of deflation risk.

We think this reality is false or at least highly exaggerated. Essentially, we reject any demand problem – on the contrary, we believe that demand has been consistently improved over recent years thanks to a *supply shock* of unprecedented proportions. More and yet more can be bought for the same money. No one is forgoing consumption, nor yet is there any sign that consumers are waiting to be able to buy the same goods more cheaply at a later juncture; instead, people are, for the same input, purchasing completely new goods of habitually higher quality and with completely new, supplementary features. The reason for this is the following: *disruptive developments* are taking place on the supply side, with a triple effect. First, any existing information and transaction costs are being wiped out; second, the deconstruction and reformation of processes and process chains is giving rise to fresh products, new companies and stiffer competition; and third, technical progress is ensuring continual upgrades and improvements in supply.

Has Airbnb resulted in people travelling less? Is Uber causing fewer "taxi" journeys to be booked? Will the peer-to-peer lending platforms that are just around the corner curtail the volume of loans issued? Nothing could be further from the truth. But this is not all. Instead, a wider trend is becoming apparent whereby capital that was previously lying fallow is being actively channelled thanks to disruptive processes – the use of private homes as hotel rooms via Airbnb or the repurposing of private vehicles as "taxis" via Uber are good examples. In other words, the existing capital stock is being privatised and productivity is rising most appreciably in precisely this sector.

Are these groundbreaking effects to be seen in the traditional aggregates upon which the gazes of Mme Lagarde & Co. are fixed? Unfortunately not, as everything created anew in this upheaval is replacing the old order, and it is the old order that is the object of data sets, "baskets of goods" and other macro-economic aggregates. The growth generated specifically by this disruption is not reflected in official GDP figures. *Growth* since 2010 is taking place *invisibly*, as the private capital stock – houses, cars, smartphones, data and all – is made productive. All this has nothing, absolutely nothing, to do with deflation. On the contrary – consumers are growing richer year-on-year as supply grows and becomes more affordable. Do consumers need low interest rates for this?

False reality, false theory, false analysis, false responses: such is the situation as it stands. Our reality is completely at odds with the "plausible" one we are being sold, and this makes us wonder: why is it that an alternative, non-deflationary narrative is at best given an evasive shrug of the shoulders – and at worst an outright cold shoulder – in the practices of the relevant institutions, in academia and in the mainstream?



And yet worse narratives

Why does the mainstream retain the upper hand (for now)? Possible answers include:

Because the *evidence* speaks a different language in places – unemployment figures, for example, imply a demand problem, despite all indications to the contrary. Our take on this? Current technological change, which is surely on a par with that of the age of industrialisation or electrification, must necessarily bring about increased structural (as opposed to cyclical) unemployment. Many professions are simply no longer needed, while among new occupations there is a substantial labour shortfall; this exact trend can be observed in virtually every region of the world, and Keynesian instruments are powerless in the face of this dilemma.

Out of *self-interest* on the part of the institutions and persons involved. Our response? This might well be true, as the deflation narrative justifies an *activism* that is entirely positive for these parties. It allows them to point up their own importance, underscore the indispensability of their respective institutions and, in some cases, ring-fence their next election victory. This elicits similar rejoicing among the mainstream media, as there is plenty of good reporting to be had from activism (a succession of quantitative easing packages springs to mind), whereas cautious, tentative monetary and fiscal policy orientated towards long-term aggregates garners only yawns from the general public. There is thus an in-built "bias", a tendentious inclination on the part of the media towards activist notions and the narratives that support them.

Because the institutions and individuals involved have painted themselves into a corner with their ultra-low interest rate policy and are thus caught in an *après-moi-le-déluge* scenario. *They desperately need the threat of deflation* in order to continue justifying the march down the dead-end street – although the air is getting thinner and thinner. From this vantage point, the worst thing that could happen would be a robust economic recovery in the USA – the "drag" on the global economy is extremely convenient for all parties. Our response? This too may well be the case, and for three reasons. First, it is extremely difficult to imagine how deeply indebted Western countries will finance themselves and get a handle on their budgets in the event of higher interest rates – debt levels will remain sustainable only as long as interest costs stay close to zero thanks to the central banks' ultra-low interest rate policy; higher interest rates would land most countries in grievous difficulties. Second, the global asymmetry between China and the USA in respect of their current and capital account balances could only be maintained as long as the Chinese were able to achieve ever higher yields on their Treasury holdings thanks to interest-rate cuts, and this remains the case to this day. Cuts in interest rates have been the "new normal", as it were, since 1987, and "vendor financing" has thus shaped up nicely for the Chinese thanks to the trend towards ongoing appreciation of dollar bond holdings. Any hint of a reversal of this situation would cause losses and cast doubts on a mechanism that has become as habituated as it is lucrative for the global economy. Thirdly, Wall Street (and, on its tailcoats, the rest of the world's stock markets) greets every extension of the ultra-low interest rate policy with rapturous applause – woe betide inflated assets, should reverse gear ever be selected!

The point about the "wild surmise" should of course be made again here: a surfeit of conspiracy theory tends to undermine the plausibility of alternative realities. Finding intrinsic motivation for a particular mode of behaviour that is inherent in the system gets closer to the mark, and in our opinion, this is exactly what we are dealing with: neither the failure to recognise real shocks, with their structural consequences – i.e. an inherent predisposition towards structurally conservative thinking – nor a predilection for activist ideas, nor yet any tacit acknowledgment of a certain absence of alternatives to the roads more travelled require the existence of an evil world ruler/conspiracy in the background. That we find ourselves in this false, horribly backward-looking "reality" and its residuum and not in one that is considerably more optimistic and progressive, can be rationalised systemically without need for further explanation, and could also be consistently explained in politico-economic terms.

This leaves the question of whether it is not a little flippant to throw down the gauntlet to mainstream opinion and the serried ranks of Krugman, Stiglitz, Lagarde, Draghi & Co. Is it really acceptable to do this? Our answer? We couldn't actually care less, as they have nothing to do with us nor we with them, and, true to our motto, they too *a priori* belong amongst all those from whom we take nothing at face value and past whom we would put nothing. It is more a question of whether there is any justification for taking arms against so much prominently propagated theory. We think there is – the theory seems to us threadbare enough to be open to attack, and the ramifications of the false "deflation" reality are sufficiently serious that one should really look towards other narratives that ultimately inspire far greater optimism. In our opinion, the coterie we have identified is perpetuating a *reality* that is only marginally less *biased or contrived* than that of the low-nitrogen VW diesels. And that prominent personalities (to whom we – in certain cases at least – are quite prepared to ascribe good faith) are proponents of this reality does not make the matter any better, but decidedly worse. The upshot of greasing the wheels for the over-indebted state sector and propping up the precarious stability of the system at the expense of citizens dependent on interest rates amounts to an intentional – and thus wilful – breach of the *contrat social monétaire*, and this is the problem; the rules of the game are rigged uncooperatively.

One thing is clear: the distortions, in other words, the economic costs of deviating from the natural rate of interest, are high, as instanced not least by Switzerland, where a regime of negative interest rates (that has now been dragging on for months) is leaving indelible marks. Portrayed by the Swiss National Bank as an instrument essential to discouraging Swiss franc purchases from abroad, and thus as a means of exchange rate management for the benefit of exporters, negative interest rates are wreaking untold devastation domestically in institutional and private portfolios alike, both among savers and in the real-estate sector. Whether the sums will actually add up at the end of the day must remain moot, as it is impossible to provide any counter-evidence. But let no one say that doubts about the reasonableness of the endeavour were not raised and substantiated.

CHAPTER 6

And what if even more were false?

In this *bergsicht*, we have used two highly topical and, in our view, extremely important examples to demonstrate how "realities" can be intentionally contrived and what very real consequences can flow from such artificial constructs: in one case, sales in their millions of diesel vehicles in a country that had no actual appetite for them; in the other, an entirely unnatural interest rate imposed upon the world. In the former, the artificially engineered state of affairs culminated in one of the greatest crises experienced by one of the largest car manufacturers in the world, compromising German quality and values *per se* and resulting, let's not forget, in painful write-downs in value for the owners of the diesel cars in question. In the latter, we cannot imagine that the eternally triumphant financial markets will not, some time, begin squaring up for the next – and perhaps final – crisis in the current monetary system.

Both of the rigged realities we have outlined are high-profile, but we believe they point towards a fundamental problem that is also becoming ever more apparent and palpable in microcosm in our private lives: it is becoming *increasingly easy* to manufacture falsified realities. Every year, your author puts together a photographic calendar for family and friends, incorporating charming summit views and memories of mountain-top panoramas from the year just ended; with only a little skill in the operation of the relevant software, he invariably succeeds in gussying up the pictures and painting the lily in ways of which Nature could barely dream. A venial sin, certainly, as the *deception* is intended only to bring *delight*. Nonetheless: lies and deceit, however well-meant, have short legs and the mountain calendar is really not a million miles removed from VW's diesel engine or Mr Draghi's deflation. There is no denying the enhanced potential of these possible impostures. Something that can be shrugged off as a harmless bit of fun becomes a life-or-death threat when combined with the possibility of *malice*, in an uncooperative scenario.

We shall probably have to learn to live with the idea that every representation ultimately reflects a "willed reality" and that we can never take anything at face value. The jury is still out on whether we wish (or have) to go so far as to routinely regard every representation as a fake unless it can be proved otherwise, but this principle should certainly become an unflinching axiom in *forensics* and in respect of the *media's rush to judgment*. In addition to this, however, we feel it would be wise to disabuse ourselves of any naivety. We should always be mindful that, to misquote Clausewitz, "war is the continuation of competition by other means". Anyone *incapable of imagining this* is out of touch with reality.

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