Stability for our Time

bergsicht

CHAPTER 1

Groundhog Day in B minor

A concert featuring the Iranian-American pianist Mahan Esfahani at the Cologne Philharmonie at the end of February had to be abandoned under near-riot conditions when concert-goers almost came to blows over a piece of music composed in 1967 – in other words, almost half a century ago – by Steve Reich, a renowned American musician of German-Jewish descent and a prominent ambassador for so-called Minimal Art. The piece, which lasts about 16 minutes when allowed to run its course (the curtain was rung down in Cologne after just four minutes), consists of a simple phrase in B minor that is incessantly repeated by two keyboard instruments with a slight phase shift, resulting in interferences that are distinctive but rough on the ears. In Cologne, Mr Esfahani was playing a harpsichord over a recorded backing track. Nothing too unexpected, you would have thought; the theatre has inured us to far more extreme and outlandish things. In Cologne, however – a German city that for a variety of reasons is on a short fuse – it doesn't take much at the moment to bring the locals to the boil.

Was it the *ostinato* repetition of the same old tune that irritated the audience? The vain hope of release in a final cadence? The apparent triviality of the simple sequence of notes? The feeling of powerlessness in the face of Esfahani's relentlessly percussive "sewing machine"? Or perhaps more a spontaneous outburst of emotion at no longer feeling quite at home at the cultural heart of your own country? It's hard to say – but the episode will serve as a *leitmotif* in this edition of *bergsicht* as we attempt to harmonise falling interest rates, absent growth effects, increasingly absurd distortions, a dearth of orientation points, a sense of futility with little hope of any euphonious resolution, eruptions of unreason and, as a coda, even Donald Trump. We think we have identified some causal relationships.

On 10 March, the European Central Bank (ECB) announced yet another monetary policy programme to inject still more liquidity into the financial system. The measure had been anticipated by the markets some weeks previously; both short and long-term interest rates have once again been in decline since the beginning of the year. Significantly, this development has not only been affecting the EUR, but also the world's dominant currency, the USD. Anyone still labouring late last year under the misapprehension that the Fed, the US central bank, might transition to a slightly more restrictive monetary policy in light of marginally improved growth and employment figures on the other side of the pond was disabused of these illusions by the beginning of spring: interest rates round the globe remain stubbornly in the doldrums, and if anything, are headed south. We are experiencing a *déjà vu* of a *déjà vu* of a *déjà vu* – an

ostinato repetition of the same old song – and it goes like this: surges on the financial markets, general consternation and questioning of system stability itself, greater or lesser disruption in sub-segments such as the currency markets and the prospect of monetary policy countermeasures – followed by a calming on the interest rate front, a recovery on equity markets and a slump back into behaving as if nothing had happened and we were living in the most unremarkable of all possible worlds. This little ditty has been on heavy rotation since the financial crisis.

However: interest rates, the key element in this recurring scenario, have now reached levels that render any further tightening increasingly difficult to imagine. The current "yield" on a 10-year German Bund is only just above 0%, and you have to make a 20-year commitment to Swiss Confederation bonds to avoid facing negative interest rates as your reward for lending to the state. The risk premiums for shakier borrowers, such as France or Italy, are minimal; even countries with decidedly questionable public finances, such as Greece or Brazil, can borrow at well below 10%. Ever-lower interest rates and virtually non-existent risk premiums have thus become a *global* phenomenon, and we shall be revisiting this point in greater depth in Chapter 4.

A host of questions refuse to go away and are becoming more pressing with every repetition: can things go on like this "for ever"? Under what endogenous or exogenous conditions will the whole exercise threaten to implode? What are the long-term consequences of such extraordinary monetary and fiscal policy becoming so run-of-the-mill? Is it possible that the anticipation of such consequences is already changing these endogenous and exogenous conditions? Or to put it another way: is there a feedback mechanism between the effects of current monetary and fiscal policy and the conditions giving rise to them? A fascinating intellectual question with potential to strike real fear into our hearts. The title of this *bergsicht* is "Stability for our Time". What if this stability were dissembled, illusory? When we speak of "fear", this is exactly what we mean; by comparison, Messrs Reich and Esfahani's gallimaufry of interference, dissimulating stability, would be nothing more than a harmless lullaby.

CHAPTER 2

A long day's journey into night

Can things go on like this "for ever"? No, of course they can't. But it can take a good long while for change to begin, as exemplified by Japan, the Land of the Rising Sun. Policy rates set by the Bank of Japan (BoJ), the country's central bank, have not crept above the 1% mark since 1995; having languished close to zero for some considerable time, government bonds (ten-year bills) have never yielded more than 2% since 2000 and are currently offering a negative return. While the Swiss National Bank (SNB) and the BoJ have both been forced to resort to negative interest rates to stop their currencies from appreciating, the Japanese central bank is targeting its monetary policy far more actively at depreciations in the hope of stimulating the crucial export sector – a plan that routinely goes awry.

In respect not only of interest rates (and hence monetary policy) but also of economic and fiscal policy, Japan is an object lesson demonstrating that, while things cannot go on like this "for ever", they may go on for a very, very long time – and by "like this", we mean trapped in a cycle of mounting sovereign debt and minimal economic growth. Despite its largely unsuccessful monetary, economic and fiscal policies, Nippon seems to be as stable as it ever was, and Shinzo Abe, the incumbent prime minister, who has been in office for over four years now, seems to be able to proclaim one stimulus package after another without seriously damaging his credibility. The national debt has grown from 190% of GDP to more than 240%, or USD 10,000 billion, during his administration. This level of indebtedness leaves Japan bringing up the lonely rear of an unenviable international field: the USA is saddled with some 105% and the EU about 90%, while Switzerland has less than 40% and falling.

The BoJ has been engaged in quantitative easing (QE) for years. This entails buying up industrial quantities of bonds in its own currency, thereby pumping liquidity into the financial system. The central bank now owns more than 30% of all outstanding Japanese government debt and analysts estimate that the proportion it holds will have risen to more than 60% by 2019. The remainder is held by banks, insurance companies and other (quasi-state) domestic institutions. This monetary policy of *ostinato* easing is reflected in the BoJ's balance sheet, which was hardly underweight to begin with and yet has almost doubled in size since 2012 as a result of activist monetary policy.

Economic growth in this East Asian island nation has been hovering at just above zero for 25 years. The only light on the horizon has been an increase in labour productivity, elicited in part by a demographic situation that has seen the size of the working population shrink in proportion to the state's pensioners. This loss has been offset by higher output per hour worked, and per capita GDP has inched ahead as a result.

All in all, Japan would seem to be practising a policy of *stabilising stagnation* at the expense of a vertiginous mountain of sovereign debt. As an "asset" that has primarily been kept within the country's borders, this sovereign debt is decidedly tautological:

Japan belongs to itself and yet owes itself money, and herein lies a key feature of its stability. The almost complete absence of external debt leaves moot the question of debt amortisation and/or repayment. There is a broad consensus in financial circles that Japan could free itself of its entire debt burden with a simple stroke of the pen. Although this would amount to a dramatic act of expropriation as far as the creditors were concerned, in the wider scheme of things, many of these creditors – whom we can presume also to be taxpayers – would simultaneously also be beneficiaries. The mere anticipation of such a stroke of the pen means that it does not have to be carried out, and debts can thus cheerfully continue to pile up for the foreseeable future – anything the domestic bond market fails to absorb will be mopped up by a state's own central bank. While not going on "for ever", this *ostinato* repetition is nonetheless a highly effective *perpetuum mobile* that suits the holders of political power down to the ground.

CHAPTER 3

This separate isle?

So what are the determinants that facilitate this Japanese monetary, economic and fiscal policy of stabilising stagnation at the expense of a huge mountain of sovereign debt? We have identified four:

- The absence of *net external debt*, as outlined above. Japan is not a passive object of international financial markets but an active subject; the Japanese are among the world's biggest creditors, owning more than USD 3,000 billion in foreign positions, including a hefty slice of US Treasury bonds.

- The similarly aforementioned – and hitherto theoretical – possibility of obviating the debt at the stroke of a pen. Lots of creditors and debtors all piled up on a single island (or archipelago) – is that really any skin off the rest of the world's nose? The notional stroke of the pen, i.e. the endogenous *expropriation option*, explains Japan's high credit rating despite all its debt and represents the country's residual value or *implied capital base*.

- Breathtaking *political stability* that has never for one moment – so far – given cause for the slightest supposition that completely new transfer mechanisms might one day cut the ruling elite out of the loop and alter the precise workings of the – notional – stroke of the pen. This persistent unwillingness to question prevailing social stratifications is a logical prerequisite for the residual value of that pen-stroke to exert its anticipatory effect. Or to put it more simply: the end of political stability would set a cat among the pigeons of Nippon's financial stability as it would spell the end of its implied capital base. By the same token, knowledge of this precarious state of affairs has a stabilising effect of its own.

- The *absence* of any hint of future *inflationary pressure* that might force the central bank to take action on interest rates. Were the debt interest owed by the state ever to stray significantly higher than the 0.1 to 1% that has become the norm over the last fifteen years, sovereign debt of more than 240% of GDP would soon become untenable.

Over the last 25 years – with numerous intervening peaks and troughs, admittedly – Japan has demonstrated to the world that a system of cavalier monetary policy, *de facto* zero growth and questionable fiscal policy can indeed keep its head above water over the long term – even though there has been one empty political promise after another, and even though most of the Japanese population have become wise to what is going on; the *status quo* of stability and stagnation has been recognised for what it is, people just wouldn't care to swap it sight unseen for a potentially risky alternative, especially as the expropriatory pen-stroke would then become a certainty. In short, a kind of negative feedback loop exists in Japan: by promoting a stability that can be expected to obtain for the foreseeable future, the Japanese cultivate and tolerate a system whose reform and restructuring will, in the fullness of time, prove all the more ineluctable and far-reaching. In the spirit of Chamberlain, one is indeed tempted to declare "stability for our time!"

Such self-stabilisation does not seem to be entirely cutting the mustard, however, and not for nothing have Shinzo Abe's policies taken on an increasingly strident nationalist tone. Internal structural reform, the all-important third "arrow" of Abenomics, has become bogged down in the divergent and largely retrogressive interests of the ruling class. An external foe has become a welcome distraction from domestic weakness, and China's nautical expansion strategy is adding fuel to the fire of this perceived new threat. Since assuming office in 2012, Abe's administration has upped defence spending and it now intends to invest heavily in new armaments, in clear defiance of the Japanese constitution. The BoJ will doubtless see fit to bankroll all this as well. This example demonstrates just how problematic the consequences – perceived by many as mere side effects – of misguided monetary, economic and fiscal policy can

be. The upshot of money that is too cheap – in this particular case, the BoJ financing the state at zero cost – is not necessarily confined to the realisation of potentially nonsensical but ultimately harmless infrastructure projects or state consumption; in certain circumstances, it can also lead to far more sinister "investments" – in the military, for example.

CHAPTER 4

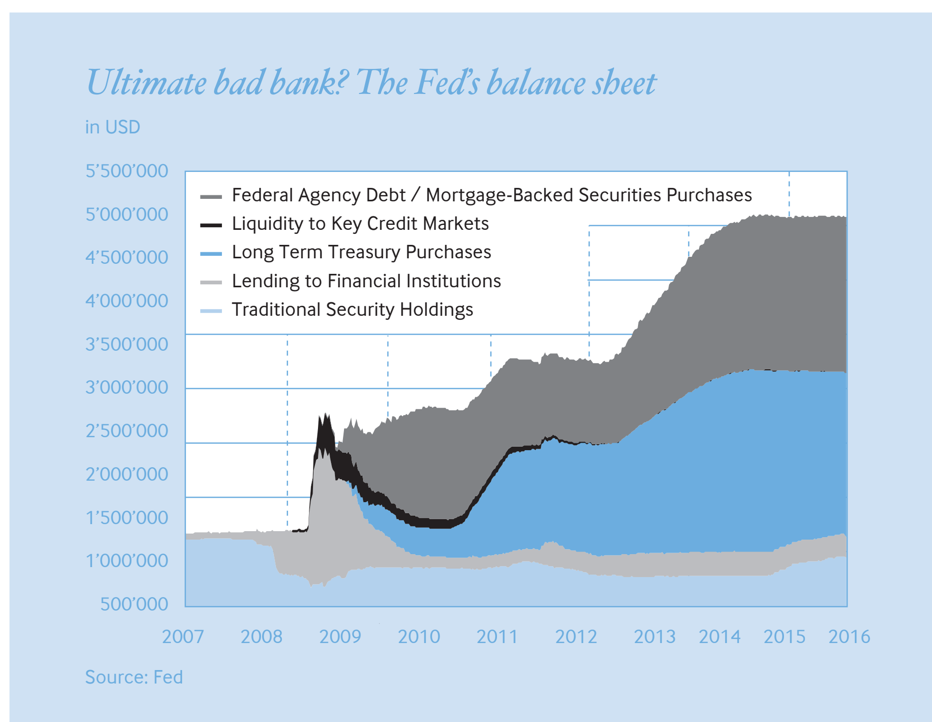
Have we all become Japanese?

But why should we be bothered about a nation that, while still wielding significant economic clout, is otherwise just a little island adrift in the North Pacific? What has that got to do with us, the rest of the world? More than is apparent at first sight, we believe. The course of Japanese monetary, economic and fiscal policy over the last 25 years bears a striking resemblance to what we have been experiencing in the wider industrialised world since the financial crisis, with *ostinato* loosening of monetary policy even unto aggressive quantitative easing; here a recession, there austerity, almost everywhere in Europe treading water, with an export-driven rally in Germany alone, and no more than a tentative recovery in the USA – but nowhere has there been a return to healthy global growth rates (5–6%) of the kind we were witnessing before the Great Financial Crisis erupted.

When it comes to sovereign debt, the global uptrend is analogous to – though less extreme than – that of Japan. Germany alone among the leading industrial nations was able to rein in total government debt somewhat in the last fiscal year. A significant proportion of outstanding state-incurred or state-generated debt has found its way onto the books of the central banks during this period of time, as the composition of the Fed's balance sheet clearly demonstrates. After advancing emergency loans to the banks and insurance system, the Fed has gradually taken on mortgage-backed securities and expanded its portfolio of US Treasury bonds during the various phases of QE, thus relieving American banks of their liabilities and guaranteeing market financing for the fiscus. But beware: this has not diminished the debt ratio! And, as in Japan, this debt has acquired tautologous characteristics.

Europe and/or the ECB is still playing catch-up in the wake of these American developments, or more accurately, it is now trying to outdo the American approach, as the monetary policy decision of 10 March 2016 makes clear. The goal is to channel an even larger share of excess debt from the – only indirectly controllable – financial system into the safe haven of the central bank; doing so simultaneously ensures that highly indebted state treasuries gain access to exceptionally generous financing conditions as equitably as possible, i.e. with minimal risk premiums for low-quality debtors. Moreover, anything the ECB does not propose to acquire will have to be bought up by the SNB to prevent the CHF from appreciating. Switzerland is unquestionably one of the leading creditors of European sovereign debtors, a state of affairs that, to our knowledge, has never yet been fully leveraged in negotiations between the Alpine state and the Brussels eurocracy ... The question is of course whether external debt with a partner country that is as closely bound up with the EU as Switzerland really counts as such at all, or if it would ultimately make more sense to view such debt from a consolidated perspective – could Switzerland ever really assert its rights as the EU's principal creditor? We shall return to this point.

From a purely phenomenological perspective, there are thus *clear similarities* (in terms of monetary policy and economic performance, coupled with a



predilection for shifting external debt onto central banks' balance sheets and/or a disinclination to restructure) between the 25 years of Japan's stagnation and events over the last five to seven years in the other industrialised nations. But do these similarities run only skin deep, or has a significant portion of the world essentially become Japanese? Has the mantra "stability for our time!", the inability to restructure, not also become a defining characteristic of Europe – and to a certain extent, of the USA as well? While we are aware of the boldness inherent in such a statement – and of its consequences – we think the answer to this question has to be "yes".

Japan, as we established above, has displayed, and continues to display, several typically insular behaviours, such as almost exclusively self-financing its debt, accumulating enormous assets all over the world, maintaining a highly cohesive society, successfully shielding its own companies from foreign investors, and more besides. At first glance, no one could accuse the rest of the world of such parochialism; out here, there are external debts *en masse* – you only have to think of the assets held by Japan and China in America, or Switzerland's claims on European sovereign debtors. Nonetheless, we submit that, thanks to the *de facto* currency monopoly attained by the USD throughout the world over the last few decades; thanks to the clearing requirements via US territory for pretty much every transaction (requirements that shore up this monopoly and drive such transactions into the purview of the American legal system); and thanks to the close links between American retail markets and manufacturing countries such as China and India, a kind of *global insularity* has been created that is *a priori inescapable*. The result? Suddenly we have a convincing explanation for a situation – accepted by most as a simple fact of life – in which countries as diverse as Germany, the USA, Italy, Switzerland, Japan, Mexico and Finland, with their vastly differing manufacturing conditions, exhibit virtually the same interest rates.

Then there is the temporal context. "Stability for our time!" was not in fact invented by the Japanese; it was at the heart of the convictions and long-term policy pursued by Alan Greenspan, the former Chairman of the Federal Reserve, who took every opportunity to appease the financial system with liquidity, thus repeatedly kicking the can of reform further down the road, even as the need for it grew and grew. The only difference by comparison with the BoJ's situation is the fact that, 25 years ago, Greenspan did not have to start the rate-cutting cycle from an ultra-low baseline but had the entire spectrum – from 10% to near-zero – at his disposal. No central bank in the world could escape the gravitational pull of the Fed when another round of stabilisation was undertaken in this manner, and forcing through reforms in line with the views of the Austrian School and Joseph Schumpeter – even if one were minded and able to implement them within one's own jurisdiction – remains as inconceivable as ever, given the existing distribution of influence around the world. The "race to the bottom" of ever-lower interest rates in all relevant currencies is not without ideological foundation: Greenspan (and with him, the Fed), along with Draghi, the current ECB president, are products of Wall Street, and it is no secret that this "stability for our time!" approach is infinitely preferable to the painful process of cleaning out the Augean stables.

In Peter Sloterdijk's latest book, *Was geschah im 20. Jahrhundert?* (What Happened in the Twentieth Century?), published by Suhrkamp in March 2016, the German philosopher posits a vast underestimation of our capability – created by astronautics – to observe and appraise the earth from afar. We see the virtual alignment of global monetary policy by the US Fed and the elimination of competing currencies as a direct consequence of an "externalised" world-view that seeks to impose blanket solutions on the planet. Inevitability and monopolisation are two sides of the same coin. Just as Japanese monetary, economic and fiscal policy has been able to hold its own under the country's insular conditions for more than 25 years, Alan Greenspan's monetary policy and a Japanese-style economic and fiscal policy have been increasingly able to flourish at a planetary level. No one finds it illogical that there is no real competition between currencies, as we are no longer inclined to think of the world in fragments, but as a single, pale blue dot – a system in which global insularity is possible.

CHAPTER 5

Prerequisites: present, but precarious

Taking Japan's monetary, economic and fiscal policy as an example, we have teased out the prerequisites for their "success" – if you can call 25 years of stagnation a success. We would now like to go on to apply these conditions to the "global insularity" we have identified and then attempt to answer the question of how long things can go on "like this". 25 years? For ever? Or for just a brief period, as the central banks have "run out of ammunition", as many contend?

The *first prerequisite* we mentioned was the absence of Japanese external debt. If we factor out the lack of currency diversity sketched above, the rest of the world – in its infinite variety – might look a rather different proposition. There was recently much talk of a European sovereign debt crisis triggered by enormously high levels of external debt in countries such as Greece, Portugal, Spain, Ireland and Italy. But what has actually happened over the course of the last

few years? Seen in the cold light of day, these debts have simply been internalised, shunted up to a higher level – that is, to the level of the eurozone! The architecture of cascading liability with the EFSF (European Financial Stability Facility) and the ESM (European Stability Mechanism), which is constructed on the back of guarantees promised by member states; the TARGET2 system between the ECB and eurozone states' individual central banks; the European Investment Fund (EIF), whose house too has been built on promises of guarantees (no paid-in capital) – all these are essentially designed to ensure that debt repayment can never again become a problem caused by a third party. Forget Maastricht treaties; over the last few years, Europe has "Japanified" its debt problem and, on the face of it, become more secure. "Stability for our time!" would definitely apply here.

Somewhat different, and yet with a similar outcome, is the situation surrounding American external debt, which is currently known to amount to some USD 6,000 billion, a significant portion of which is held by creditor nations such as China and Japan (USD 1,200 and 1,100 billion respectively). Here, the *internalisation effect* is to be found in the symbiotic economic and – in the case of Japan – security relationship between the parties. Neither China nor Japan would genuinely be in a position to exercise their creditor rights: Chinese manufacturing, the backbone of the employment rate, is acutely dependent on sales in the USA and this will remain the case for as long as domestic consumption fails to pick up in the Middle Kingdom; the Chinese have little choice but to allow the Americans to consume on tick and in return to acquire US Treasury bills via their capital account. For its part, Japan – an exposed, peripheral state in the Pacific – is (increasingly unwillingly?) sheltered beneath the American wing, and is in any case obliged to conduct the vast majority of its foreign trade in USD.

In other words, the problems associated with inflated debt levels in both Europe and the USA are substantially relativised by internalising effects arising from stabilising structures and/or real-world dependencies between debtors and creditors. There is scarcely another debtor country in the world that is as naked and alone as Argentina, for example, thus permitting levels of debt far higher – to our mind, too high by far! – than would be the case under normal circumstances.

The *second prerequisite* we identified for Japan's stabilising stagnation was the existence of a kind of implied capital base in the form of a notional stroke of the pen at which debts and credits would cancel one another out. Such a move is as easy to picture in insular environments such as Japan or Cyprus (!) as it is difficult to imagine on a global scale. But this is only true up to a point. We are in fact in the midst of just such a process: financial repression is nothing more than a subtle, glacially slow expropriation of savers and investors to the benefit of an over-indebted system that would be a toad beneath the harrow of higher interest rates. The consequences of such a *pen-stroke in instalments* are exemplified by the pension funds, which perennially require resetting and restructuring. The necessity of trimming pensions – previously considered sacrilegious – was recently broached for the first time in Switzerland. The *de facto* elimination of low-risk investments results in sticky situations that must be resolved either through the acceptance of diminished returns or greater risk-taking in investments. In either case, it is the saver who takes the hit – expropriated, albeit through an indirect route. More explicit approaches are also conceivable, however. Cyprus has already been mentioned, and the spectre of the abolition of cash has loomed large in the media there for some time now; once the population's total assets have been tucked away in conveniently controllable bank accounts, the pen-stroke will be all the easier to effect. Previous avenues for system diversification have now also been cut off by automatic exchange of information (AEOI) and America's Foreign Account Tax Compliance Act (FATCA). Our conclusion? The global financial system has also proved itself unmistakably insular as far as the implied residual value of the pen-stroke is concerned; in many respects, there is no longer any escape.

The *third prerequisite* we mentioned in the case of Japan was a remarkable *political stability* that has never really been called into question, even in the course of 25 years of arrant failure. Is there anything comparable on the global stage? No – and yet… At first blush – when you consider all the greater and lesser theatres of war, Russia's provocations, international terrorism, the challenge posed by migrant flows – of course there isn't. While such travails will doubtless strengthen the hand of those militating for renationalisation, do they represent a hazard to the world's overall political stability? In many ways, the opposite is in fact the case: the international primacy of the USA is undisputed in matters of security policy; no global brand can afford to ignore the American market (as the Volkswagen Group is currently learning to its cost); and commodities continue to be traded almost exclusively in USD. So far, the *pax americana* has faced barely a single truly global political challenge. The cast list may change occasionally, but the last really dramatic fracture lies a long way back in the past. "Stability for our time!" remains the watchword, based on the assumption – or rather the illusion, indeed, the self-deception – that some supranational panacea can solve the problems we face. The same can be said of conditions in Europe. Here too, despite all the flagrant failure, the ease with which the technocrat elite are able cling to power and maintain stabilising structures is nothing short of astonishing. On many levels, Europe too has become an island from which there is almost no escape.

Finally, the *fourth aspect* we pinpointed in relation to Japan was the absence of any kind of *depreciation pressure* that would force the central bank to alter – tighten! – its interest rate policy. If anything is truly global, it is the series of technology-led supply shocks that are consistently taking the wind out of the sails of incipient inflation. This historically unprecedented situation is a precondition for the global reach of the current low-interest scenario. Thanks to stupendous expansion on the supply side, the central banks can prosecute a monetary policy that would otherwise be inconceivable. However, there is no compelling economic case for low interest rates being necessary to combat deflation (demand management) in such a situation, notwithstanding the regular claims of central bankers to the contrary. The threat of demand-induced deflation is merely a pretext for cavalier monetary policy.

To sum up: though the notion of "global insularity" – and thus of a certain similarity between the monetary, economic and fiscal policy pursued globally since the financial crisis and the situation that has held sway in Japan for 25 years – might initially seem absurd, the various prerequisites are *sufficiently in evidence* for us to accept the comparison and its implications as a *working hypothesis*. Our conclusion, and here we revisit the question posed in Chapter 1, is that yes, things can go on "like this" for some considerable time to come. And those involved in managing and maintaining the system will do their utmost, with *ostinato* encores of the same ragged chorus, to ensure that things remain "like this" for as long as possible, shamelessly glossing over real problems and declaring that there is no alternative to their position. And as "stability for our time!" is – over the short term, at least – an attractive proposition, many others, including some of those who stand to be negatively affected, will fall dutifully into line.

CHAPTER 6

But – "for ever"?

Discussion of the four prerequisites for the persistence of Japanese-style stasis has, for all our – cautious – acknowledgement of their existence, also demonstrated that they are simultaneously highly precarious in a global context. The series of supply shocks and consequent global overcapacity ("output gap") may come to an end, for example when too much real production capacity becomes obsolete or is shut down in the wake of price reductions; such a situation may yet transpire for oil this year. The question of the validity of a planetary perspective, and of the "global insularity" it spawns, seems to us to be of a far more fundamental nature. Equal – equally rock-bottom – interest rates for all: can such a simplification of the situation on the part of the financial system meet the requirements of the real world? Is the elimination of risk premiums through the internalisation of external debt a viable path in the long term? Is it even conceivable that the entire world can belong to itself while at the same time owing itself money, as seems to have been working for Japan "for ever"? What happens if debt levels carry on rising (as is currently the case), potentially, at some stage, causing the system to collapse like a house of cards? This encroaches upon territory that is difficult to grasp as we stray towards Russell's Paradox: does the set of all sets contain itself? In our view, the debt system has evolved in the direction of such an (ultimately tautological) construct over the last forty years and we fear that – as it is no longer tested or objectified from without – it will be hoist with its own petard.

However, we believe *the danger* of the situation will manifest itself earlier and far more concretely, in the form of its systemic Achilles heel – the prerequisite of *political stability*; it might be a given for Japan, but surely this cannot be the case for the entire world for any length of time? The missteps of all those militating for "stability for our time!" are too blatant to overlook. The ineffectuality of the monetary policy they have been peddling will no longer be criticised exclusively behind closed doors. Even if Alan Greenspan was a shining light, Bernanke has lost his lustre, and the less said about Ms Yellen and Sig. Draghi, the better. The central banks are no longer above suspicion.

We are observing similar stirrings in day-to-day politics and commerce. *Revolution* is currently being *rehearsed* far and wide, and circumstances that until a few months ago might have seemed as natural as night following day – such as Frau Merkel's incumbency as Federal Chancellor or the UK's remaining in the EU – have suddenly been thrown into doubt. A character who until recently looked a mere flash in the pan is suddenly shaping up as a candidate-in-waiting for the presidency of the USA. Political movements that shun a holistic view of the world in favour of preaching the delights of their own back yard are gaining ground wherever you look. The obstinate dilution of vested rights by the organs of a meta-hierarchy – through poorly managed and overly accommodating immigration, through internalisation of debts that had previously been someone else's problem, through the imposition of a currency that no one wanted, or through the threatened abolition of cash – is, in a growing and previously silent majority, evincing a dangerous feeling of impotence, of ineluctability, of exposure, in the face of a system that is out of control and beyond control. This is the fertile ground in which the seeds of populism thrive.

The problem is that "global insularity" permits *no diversification*. To our mind, however, diversifica-

tion is at once the most powerful economic force and the most compelling human need of all, as only diversification allows true economic profit to be generated. People know this, or at least intuitively sense it – hence the enormous and justified unease at "stability for our time". It is no coincidence that carefully worded comments made earlier this year by Zhou Xiaochuan, the Governor of the People's Bank of China, suggesting that the central bank might consider pivoting away from all-out USD orientation towards a true basket of currencies threw the financial markets into blind panic. For John Doe, the equivalent of a central banker shifting to a basket of currencies might be something like choosing to use a cryptocurrency – a thought that is equally unsettling for proponents of unconditional stability.

We feel such unease has the potential to put an end to this *ostinato* repetition in the near future. The explosive power of the financial markets was demonstrated at the beginning of 2016, and we suspect that the next round of turbulence may well be beyond the control of the central banks. An unwarranted interruption may have obliged Mahan Esfahani to curtail his *ostinato* harpsichord performance in Cologne, but monetary policy is lurching towards a *fortissimo* final movement that will be heard round the world.

KH, 21. MARCH 2016

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