

“Fiat Money, Fiat News”



Ron Burgundy: Discovered by the Germans in 1904, they named it San Diego, which of course in German means a whale's vagina.

Veronica Corningstone: No, there's no way that's correct.

Ron Burgundy: I'm sorry, I was trying to impress you. I don't know what it means. I'll be honest, I don't think anyone knows what it means anymore. Scholars maintain that the translation was lost hundreds of years ago.

Veronica Corningstone: Doesn't it mean Saint Diego?

Ron Burgundy: No. No.

Veronica Corningstone: No, that's — that's what it means. Really.

Ron Burgundy: Agree to disagree.

— *“Anchorman: The Legend of Ron Burgundy” (2004)*



Ron Burgundy: Boy, that escalated quickly ... I mean, that really got out of hand fast.

Champ Kind: It jumped up a notch.

Ron Burgundy: It did, didn't it?

Brick Tamland: Yeah, I stabbed a man in the heart.

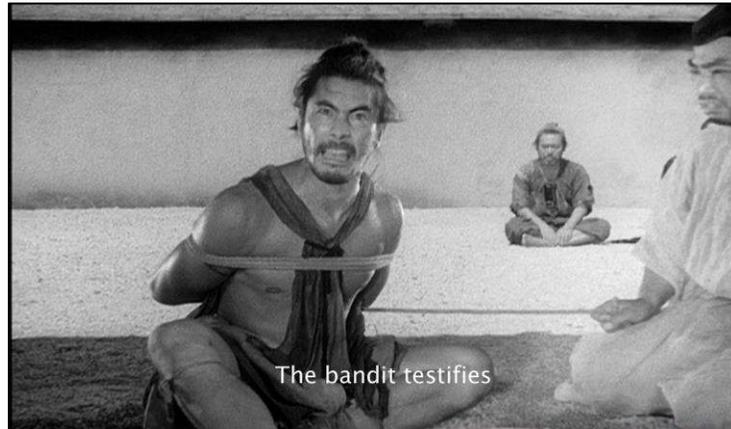
Ron Burgundy: I saw that. Brick killed a guy. Did you throw a trident?

Brick Tamland: Yeah, there were horses, and a man on fire, and I killed a guy with a trident.

Ron Burgundy: Brick, I've been meaning to talk to you about that. You should find yourself a safehouse or a relative close by. Lay low for a while, because you're probably wanted for murder.

— *“Anchorman: The Legend of Ron Burgundy” (2004)*

Priest: It's horrifying. If men don't trust each other, this earth might as well be hell.
Commoner: That's right. The world's a kind of hell.
Priest: No! I believe in men. I don't want this place to be hell.
Commoner: Shouting doesn't help. Think about it. Out of these three, whose story is believable?
Woodcutter: No idea.
Commoner: In the end, you cannot understand the things men do.
 — *"Rashomon" (1950)*

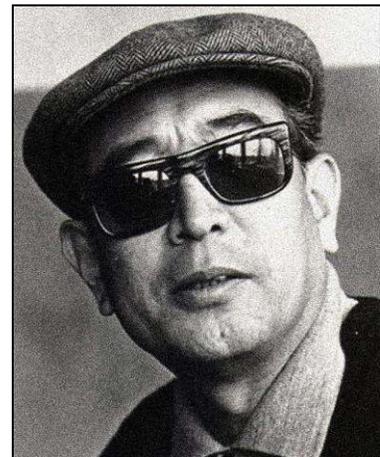


The bandit testifies

Commoner: But is there anyone who's really good? Maybe goodness is just make-believe.
Priest: What a frightening...
Commoner: Man just wants to forget the bad stuff, and believe in the made-up good stuff. It's easier that way.
 — *"Rashomon" (1950)*

To be an artist means never to avert one's eyes.
 — *Akira Kurosawa (1910 – 1998)*

If the Emperor had not delivered his [15 August 1945] address urging the Japanese people to lay down their swords — if that speech had been a call instead for the Honorable Death of the Hundred Million — those people on that street in Sōshigaya probably would have done what they were told and died. And probably I would have done likewise. The Japanese see self-assertion as immoral and self-sacrifice as the sensible course to take in life. We were accustomed to this teaching and had never thought to question it.
 — *Akira Kurosawa (1910 – 1998)*



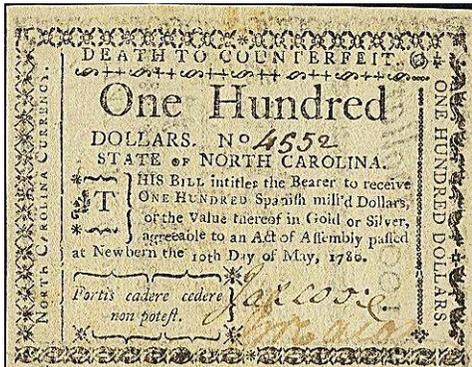
Kurosawa's *Rashomon* is the defining movie of an *Epsilon Theory* world, where Narrative dominates and Truth with a capital T is nowhere to be found. The bandit, the wronged woman, the dead samurai, and the woodcutter witness all testify at trial, and the only certainty, as unsatisfying as it may be, is that we the jury will *never* know what truly happened in that forest. Such is life. Such is history.

I think Kurosawa is spot on with his assessment of Japanese political culture, by the way. No anti-status quo Trump or Brexit votes there. Just the resignation of self-sacrifice and the long slow slide into irrelevance.

To Counterfeit is DEATH.

— Benjamin Franklin (1706 – 1790), from a 15 shilling note of his design

For 600 years, from the 13th century to 1870, the punishment for counterfeiting in Great Britain and its colonies was the same as for high treason — to be hanged, drawn, and quartered. First you'd be slowly hanged, so that you came close to asphyxiation but couldn't end the suffering by breaking your neck, then you'd be castrated, then you'd be disemboweled, and THEN you'd be killed by beheading. And then for good measure your headless body would be chopped into four pieces.



British counterfeiters during the American Revolutionary War were known as "shovers" for their efforts to "shove" fake dollars into circulation and destabilize the Colonial government. One infamous shover, David Farnsworth, was arrested with more than 10,000 counterfeit dollars, a not-so-small fortune in 1778. George Washington called for Farnsworth to be tortured to death, but Farnsworth got off easy and was simply hanged.

The largest counterfeiting operation in the history of economic warfare was Operation Bernhard, a German plan during the Second World War to destabilize the British economy by flooding the global economy with forged Bank of England notes. The forgeries are, for all practical purposes, indistinguishable from the originals.



Alves dos Reis, instigator of the Portuguese Bank Note Crisis of 1925 and my choice for the greatest counterfeiter of all time. ADR didn't print fake Portuguese currency. He printed fake instructions to the official banknote printers (famed London firm Waterlow and Sons) to print REAL notes equivalent in value to almost 1% of Portugal's nominal GDP, and ship them to him directly.





It may please your majesty to understand, that the first occasion of the fall of exchange did grow by the King his majesty, your late father, in abasing his coin from six ounces fine to three ounces fine. Whereupon the exchange fell from 26s 8p to 13s 4p which was the occasion that all your fine gold was conveyed out of this your realm.

— *Sir Thomas Gresham (1519 – 1579), letter to Queen Elizabeth I*

Gresham’s Law: bad money drives good money out of circulation.

Hunt’s Law: fake news drives real news out of circulation.

What is unexpected about medieval houses, however, is not the lack of furniture but the crush and hubbub of life within them. **Households of up to twenty-five persons were not uncommon. Since all of these people lived in one or at the most two rooms, privacy was unknown.** How did people achieve intimacy under such conditions? It appears that they did not. Medieval paintings frequently show a couple in bed or bath and, nearby in the same room, friends or servants in untroubled, and apparently unembarrassed, conversation.



— *Witold Rybczynski, “Home: A Short History of an Idea” (1986)*

In 1215, the Fourth Lateran Council of the Catholic Church decreed that everyone, king and commoner alike, should practice individual confession. In a very real sense, the IDEA of privacy — the concept of an internal life of the mind as a social good — did not exist in the West before this pronouncement.



They say the Nile used to run
From East to West

And you know I’m fine
But I hear those voices at night
Sometimes

The star maker says it ain’t so bad
The dream maker’s going to make you mad
The spaceman says everybody look down
It’s all in your mind

— *The Killers, “Spaceman” (2008)*

Illustration of a wolf trap from *Le Livre de la Chasse* (c. 1407). An entire pack could be captured by laying a blood trail through a one-way wicker door in a circular fence built around a central pen with a scared, bleating sheep. The design ensured that individual wolves could not see each other until it was too late, each wolf believing that it was on a uniquely rewarding path. I’m pretty sure this painting now hangs in Mark Zuckerberg’s office.

On December 30, the *Washington Post* [published a story](#) claiming that Russian hackers had “penetrated the U.S. electric grid” through an “attack” on Burlington Electric, a Vermont utility.

In a statement that night Vermont Gov. Peter Shumlin (D) said, “Vermonters and all Americans should be both alarmed and outraged that one of the world’s leading thugs, Vladimir Putin, has been attempting to hack our electric grid, which we rely upon to support our quality-of-life, economy, health, and safety. This episode should highlight the urgent need for our federal government to vigorously pursue and put an end to this sort of Russian meddling.”

Vermont Sen. Patrick Leahy (D) said he was briefed by Vermont State Police on Friday evening, and announced via statement that “This is beyond hackers having electronic joy rides — this is now about trying to access utilities to potentially manipulate the grid and shut it down in the middle of winter. That is a direct threat to Vermont and we do not take it lightly.”

According to Vermont Rep. Peter Welch (D), the attack showed that Russia “will hack everywhere, even Vermont, in pursuit of opportunities to disrupt our country. We must remain vigilant, which is why I support President Obama’s sanctions against Russia and its attacks on our country and what it stands for.”

Wow, *even Vermont*. Those Russian bastards.

The next day, the *Washington Post* amended their original story. Turns out that there was no “penetration of the U.S. electric grid.” Turns out that a Burlington Electric employee discovered that his notebook computer, which had never and would never be connected to the grid, had a virus on it. And that virus was probably written in Russia. It’s the same type of virus that lifted John Podesta’s emails. It’s the same type of virus that could lift my emails if I clicked on a “Free Gift From Amazon!!” link. That’s it. That was the “attack on our country and what it stands for.” A Burlington Electric employee clicked on a bad link inside a scam email and downloaded a virus.

So was this *Washington Post* article fake news?

This may surprise regular *Epsilon Theory* readers, but no, I don’t think it was. **It was fiat news, which is to “real news” what fiat currencies like dollars and euros and yen are to “real money” like a gold coin.** Fake news is something different. **Fake news is counterfeit news, which is to fiat news what counterfeit bank notes are to fiat currencies.**

I think this distinction between fiat news and counterfeit news is an important one. Why? Because when we conflate fiat news with counterfeit news we talk past each other. **If we equate the *Washington Post's* obviously partisan slanting of news with Russia's obviously interventionist creation of news, as if both are simply purveyors of "fake news", then we end up in the ridiculous position of apologizing for one, tacitly or explicitly, when we complain about the other.** Democrats (and they're mostly Democrats) justifiably upset about Russia stealing DNC emails and interfering with our election inevitably find themselves required to defend the *Washington Post* as some paragon of journalistic integrity. Republicans (and they're mostly Republicans) justifiably upset about the *Washington Post* casually equating criticism of the Obama administration with being a treasonous stooge inevitably find themselves required to defend Russia as some falsely accused innocent abroad. So long as both Russia and the *Washington Post* are evaluated on the same simplistic dimension (is it fake news or real news?), we are forced into contortions of cognitive dissonance to criticize one without tarring the other.

My view: both Russia and the *Washington Post* deserve as much tarring and as much criticism as humanly possible. My view: both Russia and the *Washington Post* are bad actors. My view: both Russia and the *Washington Post* present a danger to a well-functioning American democracy. But they present different dangers, with different dynamics, with different strategic interactions, and with different likely policy responses, because they operate on different dimensions of Information Theory. Oh yeah, one more ... my view: there are lots of Russias and there are lots of *Washington Posts* out there.

Russia is in the counterfeit news business. They are trying to influence our political process to their ***sovereign benefit***, just like the United States is in the counterfeit news business inside Russia and every other corner of the world. Russia is always a foe to a status quo American regime, regardless of which party is in the White House, as their sovereign self-interest requires constant competition. If you trust Putin, you are a fool.

The *Washington Post* is in the fiat news business. They are trying to influence our political process to their ***institutional benefit***, just like the *Wall Street Journal* and every other mainstream media institution is in the fiat news business. The *Washington Post* is never a foe to a status quo American regime, regardless of which party is in the White House, as the regime bestows on them the authority to issue fiat news. Still, if you trust the *Washington Post*, you are no less a fool.

The fiat news business is booming. As a result, the counterfeit news business is booming, too. And if the history of fiat money and counterfeit money is any guide, we ain't seen nothing yet.

The fiat news business is a centerpiece of *Epsilon Theory*, from “[Uttin’ On the Itz](#)” to “[Catch-22](#)” to “[The New TVA](#)” to “[My Passion Is Puppetry](#)” to “[When Narratives Go Bad](#)”, so I won’t repeat all that here. But I’ll repeat some. This is from “[Stalking Horse](#)”, one of my all-time favorite *Epsilon Theory* notes, back in September 2014. I think it holds up pretty well as a definition of fiat news, or what I (and the Fed) have called “strategic communication policy” in the past:



“Once you start thinking about what’s happening in markets and the world as an inextricable weave of fundamental events and political efforts to shape our interpretation of those events to achieve a political end, you start to see stalking horses everywhere. A Fed QE program ostensibly to reduce unemployment and help Main Street? Stalking horse. A [regulatory Big Data program](#) ostensibly to identify brokers who churn accounts? Stalking horse. A Chinese banking program ostensibly to liberalize currency exchange rates? Stalking horse.

And it’s not just actual programs or actual market behaviors like the Chinese purchase of U.S. Treasuries. When words are used for strategic effect rather than a genuine transmission of information you create a virtual stalking horse. This, of course, describes every use of words by every politician and every central banker. This is what Bernanke and Yellen and Draghi and Abe and Obama and Merkel mean when they refer to communication policy. Communication policy is the strategic use of words to shape perceptions and expectations. It’s a focus on how something is said as opposed to what is described. It’s a focus on form rather than content, on truthiness rather than truth. It’s why authenticity is as rare as a unicorn in the public world today.

Look, I understand why politicians and bankers have completely abandoned authenticity, an uncommon quality even in the best of times. The Great Recession was a near-death experience for the global economy, and slamming a syringe of adrenaline into the patient’s heart — which was basically what QE 1 did — doesn’t happen without long-term side-effects. To switch the metaphor around a bit, this was a war to preserve the System, and as Aeschylus said 2,500 years ago, the first casualty of war is truth. I really don’t think Bernanke or Draghi came into office thinking that their public statements would become the most powerful weapon in their arsenal, or that they could train markets to respond so positively to words presented strategically for effect, but there you have it. This is what worked. This is how the war was won.

So ... I understand why politicians and bankers have adopted a stalking horse technique to shape market expectations and behaviors, but that doesn’t mean I have to like it. And while I am happy to condone the use of emergency powers to win a war and save the world, I am not at all comfortable with their continued use once the crisis is over. Unfortunately, I believe that is exactly what has happened, that “strategic communication policy” has mutated from an emergency measure designed to prevent an economic collapse into a standard bureaucratic process designed to maintain financial stability. Is this banal assumption and routinization of power a natural bureaucratic response to a crisis, something we also saw in the aftermath of the Great

Depression? Yes, but I've got examples going the other way, too. Lincoln suspended habeas corpus in 1861, and good for him. But in early 1866 — less than a year after Lee's surrender at Appomattox — the U.S. government stood down and restored Constitutional protections. I am really hard-pressed to understand how the exigencies of recovery from the Great Recession, now more than 5 years on, are somehow more deserving of ongoing emergency policies than the immediate aftermath of the freakin' Civil War.

Wait a second, Ben. Are you seriously equating the government's use of "strategic communications" to a suspension of Constitutional protections? Doesn't that seem a tad over the top? Yes I am, and no I don't think so. The bedrock assumption of limited, representative government is that we, the people have an inalienable right to make an informed decision about who will make policy decisions on our behalf. Of course this is an imperfect process, and of course the information we use to make these decisions will be mediated and skewed by all sorts of competing interests. But it makes a big difference if the government itself is fully committed to mediating and skewing this information. **And it makes all the difference in the world if relatively apolitical institutions like the Fed and various regulatory authorities — institutions which have been granted a vast array of powers over the years precisely because they have been viewed as relatively apolitical — now embrace the highly political act of mediating and skewing information in service to their own particular visions of stability and status quo preservation.** This is the danger of strategic communication policy. This is the price we pay for a loss of authenticity within our most important institutions."

Like I say, holds up pretty well, particularly after this last election cycle. If I rewrote it today, the only change I'd make is to explicitly add news organizations like the *Washington Post* or CNN to the list of privileged institutions that "now embrace the highly political act of mediating and skewing information in service to their own particular visions of stability and status quo preservation."

So where does it all go from here? I'll take a cue from the history of fiat money and its counterfeits and hazard three predictions. After all, prices and news are both just signals when seen through the lens of Information Theory, and the same dynamics and "laws" should apply to both.

First, there's no reason to believe that the breadth and scope of fiat news won't grow to the same level of ubiquity as fiat money. There's really no such thing as "real money", i.e., gold and silver as a medium for exchange or a store of value, in existence in the world today. [That used to be the meaning of gold, but those days are long gone.](#) Today fiat money completely and utterly dominates all global commerce and exchange. Why? Because it supports the existential aims of government: taxation (sovereignty), price control (stability), and liquidity provision (growth). Without the invention of fiat money, global GDP today would be at ... I dunno, maybe mid-18th century levels? Something around there, I'd guess. Fiat news serves exactly the same existential aims of government, just in a less overt (but more powerful for being hidden) fashion. There's just too much at stake for status quo regimes, what with modern referenda like Brexit and national elections like we just experienced in the U.S. and are forthcoming this year throughout

Europe, for regime institutions to do anything other than double-down in their embrace and promulgation of fiat news.

Ten years from now we will be awash in “news” to a degree that we can hardly imagine today. That’s what happened with fiat money, and that’s what I think happens with fiat news. The exponential growth in fiat news is still ahead of us, not behind us.

Second, while counterfeit news will continue to suffer the same official opprobrium and punishment as counterfeit money has endured over the centuries, we’re going to see a lot more of it in the years to come. In the same way that it’s easier to counterfeit fiat paper than gold or silver coins, so is it easier to counterfeit fiat news. I mean, the bang for the buck that Russia got from their email hacking and dissemination exploits in 2016 is just ... staggering. What Russia did with counterfeit news is the same thing that the British did during the American Revolution with counterfeit dollars. It’s the same thing that the Germans did during World War II with counterfeit pounds. It’s the same thing that I’m sure the U.S. has done in more countries and more conflicts than one can easily count. *But what Russia has shown is how easy and cheap it is to counterfeit news for yuuuge sovereign benefit when ALL news is constructed and slanted to some degree.* Trust me, this lesson is not lost on China. Or Germany. Or France. Or India. Or Brazil. The Information Wars are just beginning, and the equivalent of hydrogen bombs are both crazy cheap to build and the technology is fully proliferated. There’s no putting this genie back in the bottle.

Is this a potential *casus belli*? Absolutely. Counterfeit strikes at the heart of what it means to be a sovereign government, whether or not we’re talking about money or news, particularly when the counterfeiting is done by another government. My guess is that the next level of counterfeiting, one that could spark a shooting war, will take the form of something like the Portuguese Bank Note Crisis of 1925, where the real printers of the real money were tricked into printing massive quantities of real notes for a fake customer. This was non-forgery counterfeiting, and it’s the future of sovereign-directed counterfeit news.

Third, Gresham’s Law applies to news as well as money, meaning that fake news drives real news out of circulation. When Thomas Gresham wrote Queen Elizabeth I in 1560 to deliver the bad news that “all your fine gold was conveyed out of this your realm” because her father Henry VIII had debased the currency by lowering the silver content of his coins, he didn’t mean that people packed up their gold and shipped it to France. He meant that people hoarded the old (good) silver coins and didn’t spend them. He meant that people hoarded their gold (or any trusted store of value) and refused to exchange them for Elizabeth’s coins. Elizabethan citizens lost trust in ALL commonly exchanged coins, no matter what the

coins looked like or who offered up the coins, because Elizabethan citizens were good game players. If you're willing to exchange an unknown silver coin for my bad silver coin (or something priced in bad silver coins), then either you're stupid or that's also a bad silver coin. Let's assume you're not stupid, so I'm going to treat your coin as bad regardless of whether it's truly a good coin or not. And if you truly have a good coin, there's nothing you can say to me that will convince me it's a good coin. *You can't spend your good coin for fair value even if you wanted to.* It's exactly the same with news today. We know that the news has been "debased" through strategic communication policy, through the intentional slanting and mediation of primary news by officially sanctioned sources like Fed Chairs and CNN anchors in the service of stability and status quo maintenance. As a result, we've lost trust in ALL commonly exchanged news, no matter what the news is about or who offers up the news. Even though we're awash in news, just like Elizabethan England was awash in coinage, the exchange value of ALL news has been diminished regardless of its "truth-content". "Real" news today is diminished in value simply by the act of dissemination. You can't spend your real news for fair value even if you want to, so it makes no business sense to spend real money to collect real news.

It's this third point that is the most important, because it points to a potential transformation in the way that we THINK about news, a change in the IDEA of news as a social good. These transformations happen rarely — the invention of privacy, for example, in the 13th century — but they ARE inventions, no less so for being conceptual than the tangible invention of the steam engine or the semiconductor. And when these conceptual transformations do occur, they change the entire course of human civilization.

I'm using the social invention of privacy as a prominent example because I think that this transformation in the idea of news as a political good is connected with a similar transformation in the idea of privacy, both of which are being reinvented by technology. It's no accident that Facebook is at the center of both.

Here's the crux of [Facebook's Dec. 15 announcement](#) on combating fake news:

Flagging Stories as Disputed

We believe providing more context can help people decide for themselves what to trust and what to share. We've started a program to work with third-party fact checking organizations that are signatories of [Poynter's International Fact Checking Code of Principles](#). We'll use the reports from our community, along with other signals, to send stories to these organizations. If the fact checking organizations identify a story as fake, it will get flagged as disputed and there will be a link to the corresponding article explaining why. Stories that have been disputed may also appear lower in News Feed.

In practice this means that four established fiat news institutions — Associated Press, ABC News, the *Washington Post*, and the *Tampa Bay Times* (Politifact) — together with a smaller media company,

Snopes.com, will share the responsibility for determining what stories are “disputed” and dropped into the memory hole of a lower ranking in News Feed. More fact checkers, particularly more fiat news institutions, will undoubtedly be added to the list, as the process is designed to encourage fiat news institutional participation (The Poynter Institute, developer of the “Fact Checking Code of Principles” at the heart of Facebook’s efforts here, owns the Times Publishing Company, which in turn owns the *Tampa Bay Times* and Politifact). My sense is that these fact checkers can do a pretty good job of identifying counterfeit news (for example that’s why Snopes.com was started, albeit in an urban legend and email hoax context), but will fail miserably at policing fiat news, for obvious reasons. Not that Facebook cares about the distinction, of course, as they will become the preeminent fiat news provider themselves when all is said and done.

Facebook’s erosion of privacy settings and protections is a long-running saga, reflecting Mark Zuckerberg’s many public statements that privacy is “no longer a social norm.” He’s probably right, *which is exactly my point in writing about it in this note and linking it to a change in social norms regarding political information and news*. But my concern isn’t that Facebook prevents me from maintaining privacy with regard to other Facebook users. **My concern is that Facebook prevents me from maintaining privacy with regard to Facebook and other regime institutions, both corporate and governmental, so that the fiat news I receive is curated and distributed to successfully elicit a specific response from me.**

I know, I know ... if you don’t want your actions and preferences exposed to The Controllers, don’t use Facebook. And I don’t. But in the same way that there are lots of Russias and lots of *Washington Posts* out there, so are there lots of Facebooks. Plus *the* Facebook and *the* Amazon and *the* Google are getting harder and harder to avoid. Each of these companies has designed a wonderfully effective Medieval wolf trap, complete with blood trail and bleating sheep, to lure all of us wolves into the pen, and I’m certainly no exception to that. It’s brilliant, really, even if horribly depressing.



What’s happening here is reflective of a prominent feature of American political culture, namely that we tend to trust anything technology or business related, and correspondingly mistrust anything that comes

from the government. It's a big part of the Trump phenomenon, as lots of people have noted, but it goes back literally a couple of hundred years. What's Hamilton's core appeal? He's a self-made man, the highest praise you can offer in the American political tradition. My view, of course, is that it's absolutely nuts to trust billionaires to devise or administer your social policy, whether it's Donald Trump or Mark Zuckerberg or Eric Schmidt or Jeff Bezos or whoever, more or differently than you trust permanent members of the political class like the Clintons or the Bushes or whoever. Actually I take that back. I trust technology



billionaires like Zuckerberg and Schmidt and Bezos LESS than I trust the Clintons and the Bushes when it comes to my political interests and democracy-supporting social policy, which is really saying something. Why? Because gridlock. I love gridlock. I love the checks and balances embedded in our political machinery, because it prevents government from doing as much as it otherwise would to interfere with and upend my life. There's no gridlock at Facebook or Amazon or Google, and this is where you'll find the road to smiley-face authoritarianism. Where are we going? It's

not George Orwell's *1984*. It's Dave Eggers' *The Circle*. A world awash in fiat news as administered by government-licensed technology behemoths with a dissemination "platform". We don't trust the news, and in the back of our minds we know we're being played, but boy, is it an entertaining and compelling delivery.

So what's to be done? Not much in a political sense. Proposing some "plan" to roll back Facebook and Google and Amazon's usurpation of fiat news dissemination makes about as much sense as proposing a plan to roll back the Catholic Church in 1215. As a citizen pretty much the best I can do is ring the cow bell with *Epsilon Theory* and try to convince other citizens to see the world through the same *Rashomon*-esque lens. As Akira Kurosawa said, to be an artist means never to avert one's eyes. Ditto for a liberty-loving citizen.



As an investor, though, I hope to do more than just add more cow bell. I think it's possible to use new technologies to track and analyze the dynamic of fiat news dissemination, i.e., the Narrative, within the discrete social system of capital markets. It's the same family of new technologies that Zuckerberg and Schmidt and Bezos are using to shape our entire society, just applied for analytical purposes rather than shaping purposes. Plus a wee difference in scale. I'm applying these technologies to a very specific social dynamic — [the Common Knowledge Game](#) — that I believe dominates policy-driven markets and story-

driven stocks. I call this the Narrative Machine, and it's the centerpiece of my investment activities for 2017 and beyond. [Here's the Epsilon Theory note that launched the project](#), and I hope you'll find this a useful research project to track in the Brave New World ahead.

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