

Peace, enemy of the state

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Why hello there!

My name is Boaz, I'm new to Southbank Investment Research. I'm a former financial adviser from Scotland, and I'll be taking the reins at *Capital %26 Conflict* every now and then. I look forward to our journeys together.

Let us begin.

I'll go down the rabbit hole first.

Enemy

Hatred. Fear. Courage. These are what surface when we see an enemy. They are what bind a society in wartime together. When felt by the many, they form a throne for leaders. Those willing to seize that throne and play on these emotions know true power.

Once the state has the right enemy, it can do whatever it wishes. Every excess and misuse of power may be indulged in the name of vanquishing the threat.

Terrorists? Mass surveillance of everyday citizens. Deflation? Debauchment of the currency.

We have a hung parliament. The country is heavily divided, and faith in the state is low. For the country to come together in supporting the state, we shall need an enemy.

There are plenty to choose from.

Perhaps the EU will fit the bill. Or Islamic terrorists. Another is lurking in plain sight, but I'll come back to that at the end.

You'll see much of the UK election in the news today. What it might mean for our currency and economy will be everywhere. But a more important story in the short term, is unfolding abroad. Let us swivel our telescopes to the East.

Deja vu

How many times have you read the sentence "Tensions are rising in the Middle East"?

It won't be getting any smaller, anytime soon.

[Saudi Arabia and Qatar have found enemies](#) in each other. Qatar allegedly paid a billion-dollar ransom to al-Qaeda and Iranian security... for the return of Qatari royals... captured by jihadis... while on a falconry trip... in Iraq (as you do). What a tale.

This has aggravated the Saudis, who now prevent transactions in Qatari riyals (?) or dealings in Qatari treasuries being facilitated in their banks. The Iranians are openly backing Qatar, as is Turkey.

Meanwhile, the United Arab Emirates (close ally of the House of Saud), is imprisoning any posting sympathetic comments about Qatar for up to 15 years.

Understandably, the riyal has plummeted in value.

Analysts are speculating whether a departure from Opec, the oil cartel, is on the cards for Qatar. Were this the case, [oil and Opec are in for another bumpy ride](#).

If this isn't a mess, it'll do until the mess gets here.

What makes the story interesting is that Qatar is accused of using hostage ransoms as a means of funding its favourite jihadi

groups (think sponsor a dolphin, just with your loved ones as collateral).

Imagine requiring your pen pals to take your relatives hostage, just so you could have an excuse to send them briefcases stuffed with cash by private jet. And there I thought international bank transfers were bad. Maybe the Qataris should look into [cryptocurrencies](#) for this kind of work in future.

”Why is war so wonderful?”

“Lasting peace, while not theoretically impossible, is probably unattainable; even if it could be achieved it would almost certainly not be in the best interests of a stable society to achieve it.”

It’s an incendiary statement. And it’s the conclusion of a New York Times bestseller, *Report from Iron Mountain on the Possibility and Desirability of Peace*. As a leaked document, the report addressed high ranking government officials.

It claims to have been compiled in total secrecy by leading academics in a nuclear bunker in the 1960s. Commissioned by the US government, they strove to understand the true function of war and whether world peace was possible, or even desirable. It is one of the most Machiavellian documents you will ever read.

They concluded that war was necessary for the attainment of two things – social cohesion and the acceptance of authority. Perpetual peace by itself would sustain neither. Put another way, if you want peace, you need to replace war with another external threat felt by all of society. Nothing unites people like an enemy to fear and fight against.

As you can imagine, those vigilant souls labelled as conspiracy theorists have had a field day with it ever since. Robert McNamara, secretary of defence for Lyndon Johnson and later president of the World Bank, is seen as the likely commissioner of the report.

Outrageous statements like “slavery may be an absolute prerequisite for social control in a world at peace”, and “Why is war so wonderful? Because it creates artificial demand... the only kind of artificial demand, moreover, that does not raise any political issues: war solves the problem of inventory.”

That latter quote is revealing

Create an enemy people fear and you can use it to exert great power. The [economic enemy we’re all taught to fear is deflation](#). That’s allowed the state to conduct the most radical monetary experiments seen in history.

Savers are forced to their knees by interest payments worth peanuts. The noose of negative interest rates is gradually tied around their necks. These are casualties in the war against deflation.

It is hated by governments and feared by investors. Those who fight it are seen as courageous: Ben Bernanke’s memoirs of his time fighting the credit crunch with more credit are titled *The Courage to Act*. Even Disney heroes get a mention in Japan:

“I trust that many of you are familiar with the story of Peter Pan, in which it says, ‘The moment you doubt whether you can fly, you cease forever to be able to do it,’” he said. “Yes, what we need is a positive attitude and conviction.”

– Haruhiko Kuroda, Bank of Japan governor

Hatred, fear and courage. Levers accessible to the state, only when an enemy brings them to the surface.

The fiscal frontier: war

Low interest rates are ceasing to have a meaningful effect on the war against deflation. Their main triumph appears to be asset valuations visible in the night sky, somewhere in the constellation of Taurus. Fiscal stimulus will likely be the cavalry, “courageously” put forward by the government. Donald Trump’s wall is a great example of this, if it ever gets constructed.

But a popular war is even better. Spending unrestricted; citizens subservient.

In the 1930s, the Japanese got away with helicopter money (the central bank directly funding the government by printing money) without it destroying the currency. Japan had abandoned the gold standard to avoid the great depression, and then spent the resulting monopoly money on the military (Bernanke described this as “brilliant”).

The militarisation of the country, the looming idea of war and its threat to the Japanese citizens appears to have been why such destructive measures did not immediately cause rampant inflation.

Should the state find the right enemy, war may be used as an excuse to conquer deflation as well. Were I as cynical as the report, I'd suggest you buy stocks in defence companies like Lockheed Martin. Or to be fashionable, you could look at a passively invested defence and aerospace exchange-traded fund, like the iShares US Aerospace %26 Defense ETF (ITA).

Five years after its publication Leonard Lewin, an American writer, claimed he had written the book as political satire. It was all a hoax he declared, to provoke the reader's imagination and alert them to the sociopathy of the military industrial complex.

Conspiracists didn't, and don't, buy it – this was just damage control by the powers that be, they say. But give it a read, [and make your own conclusion](#).

Although the report concludes that war is desirable, it does suggest a suitable enemy that could replace the role of aggressive [foreign powers](#).

An enemy that is relevant today, and often occupies the news.

An enemy that can instil fear in the populace and force them to accept authoritarianism for their own survival.

An excuse for the state to squander billions in public money as an economic counterweight.

This enemy may surprise you – or, leave you with a cynical smile on your face.

What enemy did the report suggest to unite the people in fear against?

Climate change.

Until next time,

Boaz Shoshan
Capital %26 Conflict

PS One interesting aspect of the *Report From Iron Mountain* was the possibility of *Hunger Games*-esque "blood sports" as a means of stamping out aggressive individualism in the youth. As I recall, one of the taglines for a sequel to the film was "remember who the enemy is". Who do you think the enemy is? Do let me know: boaz@southbankresearch.com.