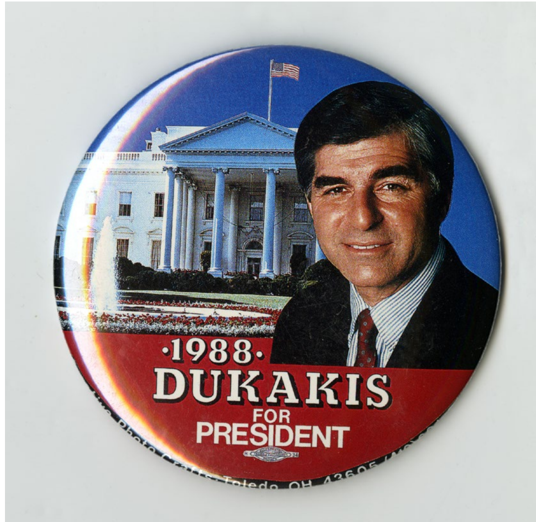
Epsilon Theory

# Virtue Signaling, or…Why Clinton is in Trouble

September 26, 2016




Hillary Clinton would make a sober, smart and pragmatic president.

Donald Trump would be a catastrophe.

***— LA Times Editorial Board endorsement, September 23, 2016***

**Yep, gotta get me some of that pragmatism! It's code for "typical lying politician", and of course the *LA Times* knows it.**

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After opposing driver's licenses for undocumented immigrants during the 2008 campaign, she now vows to push for comprehensive immigration legislation as president and to use executive power to protect law-abiding undocumented people from deportation and cruel detention. *Some may dismiss her shift as opportunistic, but we credit her for arriving at the right position.*

She helped promote the Trans-Pacific Partnership, an important trade counterweight to China and a key component of the Obama administration's pivot to Asia. *Her election-year reversal on that pact has confused some of her supporters,* but her underlying commitment to bolstering trade along with workers' rights is not in doubt.

***— New York Times Editorial Board endorsement, September 25, 2016. Italics mine.***

**With passive-aggressive friends like these …**

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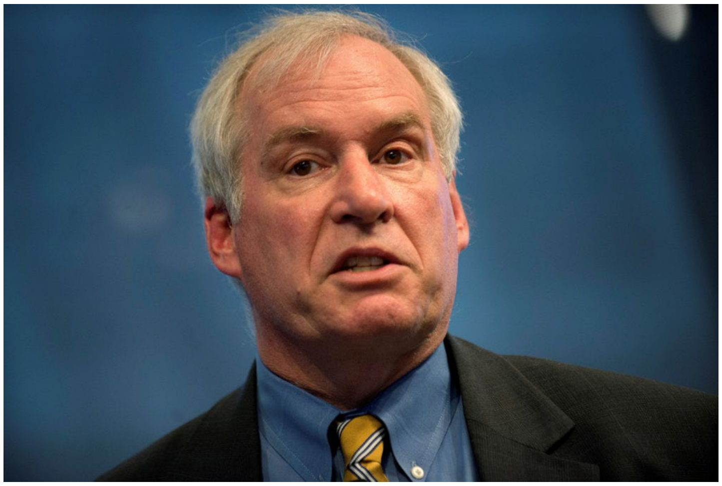

As a result I am arguing for modest, gradual tightening now, out of concern that *not* doing so today will put the recovery's duration and sustainability at greater risk, by generating the sorts of significant imbalances that historically have led to a recession.

***— Statement of Eric S. Rosengren, Commenting on Dissenting Vote at the Meeting of the Federal Open Market Committee, September 23, 2016***

**It's not just the number of dissents on last week's FOMC vote, it's the argument. Rosengren says the Fed is *causing* the next recession.**

"Why do you want to be president?"

"The reasons I would run are because I have great belief in this country, that is — there's more natural resources than any nation in the world, there's the greatest educated population in the world. It just seems to me that this nation can cope and deal with the problems in a way it has done in the past … and I would basically feel that it's imperative for the country to either move forward, that it can't stand still or otherwise it moves backwards."

*— CBS interview with Ted Kennedy, **October 1979***

**And just like that, Kennedy was finished. My question for Yellen: why do you want to be Fed chair?**

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***— David Malki, "In which War is waged", September 13, 2016***

**I was in Los Angeles last week, and the Clinton anti-Trump TV ads were in heavy rotation. It's not because the Clinton campaign is worried about the California vote, because if they were then the election would already be irredeemably lost. No, the ads are being run in the metro LA area so that Clinton supporters (and donors!) can feel good about themselves. It's like throwing a massively expensive dinner party to congratulate yourself for all the money you've raised to feed the poor.**


| | |
|---|---|
| **Isaac**: | Has anybody read that Nazis are gonna march in New Jersey? Ya know? I read it in the newspaper. We should go down there, get some guys together, ya know, get some bricks and baseball bats, and really explain things to 'em. |
| **Party Guest**: | There was this devastating satirical piece on that on the op-ed page of the Times, just devastating. |
| **Isaac**: | Whoa, whoa. A satirical piece in the Times is one thing, but bricks and baseball bats really gets right to the point of it. |
| **Helen**: | Oh, but really biting satire is always better than physical force. |
| **Isaac**: | No, physical force is always better with Nazis. |

— *Woody Allen, "Manhattan" (1979)*

Epsilon Theory readers know where I stand on this. **It's just another instantiation of the Common Knowledge game, where everyone knows that everyone knows that John Oliver is funny, but no one actually thinks that he's funny. Want to see effective (that is, subversive) political humor? Watch anything by Groucho Marx. Want to see ineffective (that is, status quo) political humor? Watch anything by these supercilious scolds. At least Samantha Bee gets the joke.**

PolitiFact, a *Tampa Bay Times* site that won a Pulitzer for its coverage of the 2008 election, has rated 70% of the Trump statements it has checked as mostly false, false or "pants on fire," its lowest score. By contrast, 28% of Clinton's statements earned those ratings.

***— Michael Finnegan, LA Times "Scope of Trump's falsehoods unprecedented for a modern presidential candidate", September 25, 2016***

**The fact-checker's inspirational battle cry: "Lying only 28 percent of the time!"**

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The people complaining about "false balance" usually seem confident in having discovered the truth of things for themselves, despite the media's supposed incompetence. They're quite sure of whom to vote for and why. Their complaints are really about the impact that "false balance" coverage might have on other, lesser humans, with weaker minds than theirs. Which is not just snobbish, but laughably snobbish.

So, shut up.

***— Matt Taibbi, Rolling Stone "Stop Whining About 'False Balance'", September 16, 2016***

**Wait … Clinton apparatchiks are snobbish?**

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As a lifelong Democratic voter, I'm dismayed by the radical left's ever-growing list of dos and don'ts — by its impulse to control, to instill self-censorship as well as to promote real censorship, and to deploy sensitivity as an excuse to be brutally insensitive to any perceived enemy. There are many people who see these frenzies about cultural appropriation, trigger warnings, micro-aggressions and safe spaces as overtly crazy. The shrill tyranny of the left helps to push them toward Donald Trump.

***— Lionel Shriver, The New York Times "[Will the Left Survive the Millennials?]", September 23, 2016***

**There are real bigots out there. Real misogynists. Real anti-Semites. Real alt-right "deplorables". None of them are university professors. None of them are novelists. But if you want to see what the real thing looks like, just keep doing this sort of insanely misplaced virtue signaling.**

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I did not break up the Beatles. You can't have it both ways. If you're going to blame me for breaking the Beatles up, you should be thankful that I made them into myth rather than a crumbling group.

***— Yoko Ono (b. 1933)***

**Common Knowledge today: Donald Trump is the Yoko Ono of the Republican Party.**

**Common Knowledge tomorrow: Hillary Clinton is the Yoko Ono of the Democratic Party.**

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If you've ever played a team sport, you've experienced a game that was a mismatch on paper. Now usually that game goes according to form. The better team scores early and often, and the inferior team doesn't sniff a win. But sometimes the game gets tight. Sometimes the better team makes a few unforced errors, and the inferior team capitalizes. Sometimes there's a lucky bounce of the ball for the inferior team. And then another. And another.

There's a moment in every game of this unexpected type — the upset in the making — when the individual players on the better team (call them the status quo team) begin to doubt. They feel the game slipping away, even though they *know* that they're the better team. What happens to many players in that moment of doubt is, to use the game theoretic phrase, they decide to defect. It doesn't mean that they quit. It doesn't mean that they give up. In fact, without exception, they all believe that their team will still prevail. But they start to think about what a loss, however improbable, would mean for their personal, individual goals. They never even entertained those thoughts at the beginning of the game. It was all about the team, and a team victory would naturally go hand in hand with personal development and personal goals. But now … now that the unthinkable is suddenly thinkable … they start acting directly in favor of their own self-interest, not the team's communal interest. They start signaling their virtue.

**Virtue signaling is a behavior that visibly demonstrates the individual qualities of the player to some external audience, whether or not it improves the chances of the team to win.** It's not overtly detrimental to the team. In fact, for all outward appearances it's rather supportive of the team. But it makes all the difference in the world if an offensive lineman is more concerned with making HIS block than protecting the quarterback no matter what. It makes all the difference in the world if a shooting guard is more concerned with meeting HIS scoring average than playing team defense. It makes all the difference in the world if a Democratic Party functionary is more concerned with tweeting HIS outrage at the latest nonsense that Trump is spouting than in volunteering for a get-out-the-vote effort in Greensboro, North Carolina.

Virtue signaling is an attempt to have your cake and eat it, too. If the team ends up winning … hey, I did my part. Didn't you read that blistering anti-Trump op-ed piece I oh-so bravely penned in *The New York Times*? If the team ends up losing … hey, don't look at me. Didn't you read that blistering anti-Trump op-ed piece I oh-so bravely penned in *The New York Times*? It's an entirely rational set of behaviors that seeks to insulate yourself from the inevitable blame game if things go wrong (the infamous circular firing squad of American party politics, particularly on the Democratic side) while still preserving your place in the victory parade if things go well.

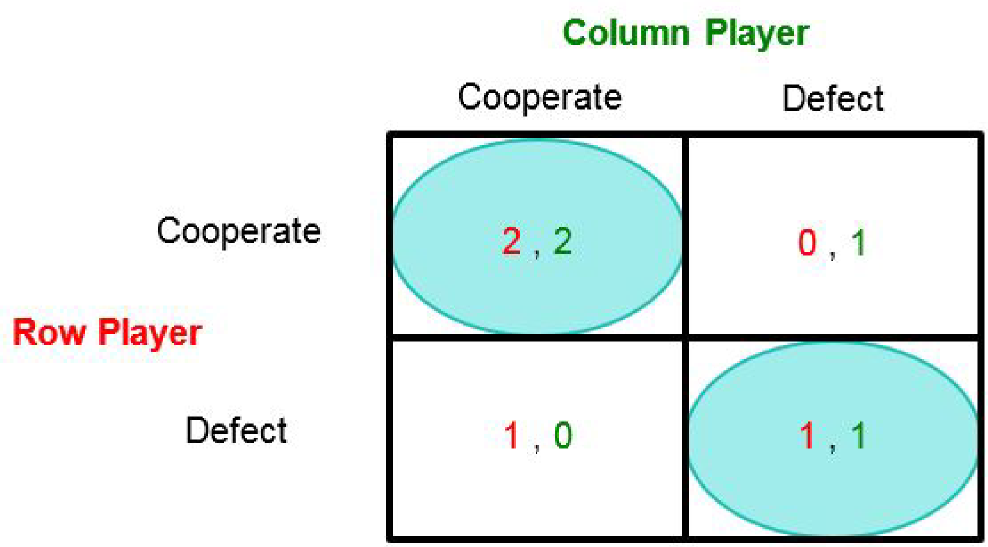

If you follow football closely, you'll hear a phrase that players and position coaches use in an entirely positive light: selling out. They don't mean a sell-out in the way the phrase is generally used, either as a full house in terms of ticket sales or, pejoratively, as a person who's chosen money over authenticity. No, they mean it as a compliment. When you sell out on a play or a coach's game plan, it means that you commit fully. It means that you are prepared to embarrass yourself by your single-minded pursuit of a team victory. It's the absolute opposite of virtue signaling, and there is no higher praise for a teammate than to say he "sold out" in a game. **I see no one willing to "sell out" for Clinton, and that tells me that, in a close game, she's in a lot of trouble.** If Clinton were an NFL quarterback, she'd be Jay Cutler of the Chicago Bears, a player who is infamously difficult for his teammates to support or rally around. No one has ever sold out for Jay Cutler. Now in his 11th season, Cutler's teams have made the playoffs once. Once.

What I DO see for Clinton is virtue signaling galore among her supporters, including her own campaign staff. It's the fact checking fetish. It's the TV ad spend in safe states. It's the damned-with-faint-praise and passive-aggressive endorsements. It's the passion reserved exclusively for "outrage" over Trump's intentionally outrageous statements and utterly absent for anything Clinton says. It's all designed to signal to your tribe that you're a good person because you're against Trump. It's not completely uncorrelated with getting Clinton elected … it's not counter-productive, per se … but it's not very productive, either. Why not? ***Because this is a turn-out election.*** The winner of this election will be whoever can get more of their tribe to the polls in swing states: Colorado, North Carolina … maybe Nevada … maybe one or two others. Period. This is not an election that will be decided by influencing undecided or "lightly decided" voters one way or another, because all of these voters are staying home on November 8th anyway. It's an election that will be decided by *motivating* your base. Can fear of Trump motivate? Sure it can. ***But if Brexit taught us anything, it's the limitations of a fear-based campaign, at least when the fear-mongers are the same smarter-than-thou elites who tsk-tsk their deep and abiding concern for the benighted masses from Davos or Jackson Hole.*** Status quo candidates don't win on fear alone. They're not the anti-party.

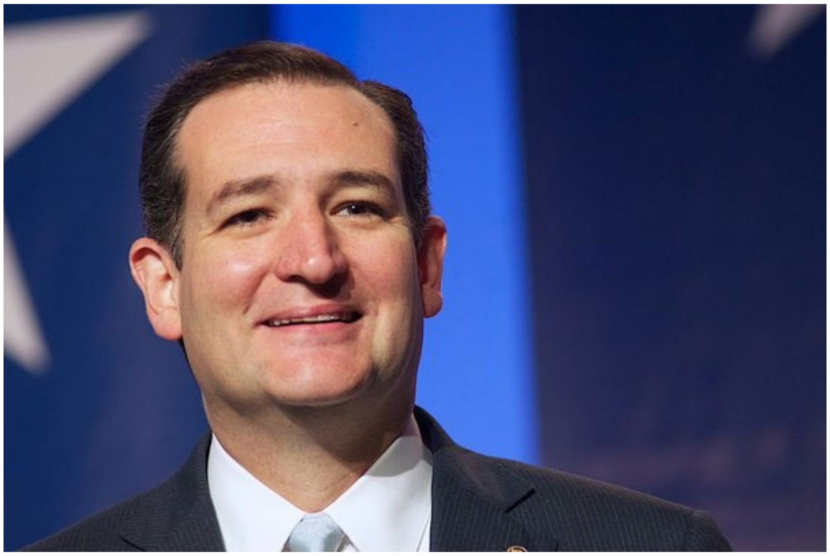
There has to be a reason … a why … an anthem for rallying the troops. And that's what's missing from the Clinton campaign, in exactly the same way it was missing for Teddy Kennedy in 1980 and Michael Dukakis in 1988.

Look, I get it. The Democratic candidate isn't Clinton, it's Clinton™. Having chosen (or more accurately, anointed) a profoundly ~~hypocritical and opportunistic~~ pragmatic candidate, *Democratic mouthpieces are now in the uncomfortable position of manufacturing enthusiasm rather than channeling enthusiasm*. Enthusiasm is something you can easily fake when you're winning big. But when the game gets tight … when it looks like (gulp!) the game might go the other way … well, that's when thoughts of self-preservation and virtue signaling start to creep into the most adamant Democratic partisan. In fact, *particularly* the most adamant Democratic partisans. They WANT to believe. But Clinton™ is just so hard to sell out FOR.

The concepts of cooperation and defection are at the core of game theory. Whether it's a game of Chicken or Prisoner's Dilemma or (below) Stag Hunt, the standard depiction of strategic decision-making is always a choice between cooperation and defection.




But it's so important, I think, to recognize that defection isn't always (in fact, usually isn't) some grand gesture of rejection. *Defection is a state of mind*. Sure, when Never Trump Republicans come out and jump ship over to the Clinton camp, that's an obvious defection. But it's also a defection when Clinton advocates use all of their precious media time to rail and rail about how Trump is a more prolific liar than Clinton, because the subtext here is "my candidate is a liar, too", and there's nothing motivating about *that*. **Here's the big kicker: the virtue signaling "soft defector" is more damaging to the Clinton campaign than the turncoat "hard defector" is to the Trump campaign.** Why? Because virtue signalers are rewarded by their own tribe, while turncoats are blasted. **Virtue signaling is infectious.** It spreads like the common cold. And because the psychic rewards from virtue signaling are so immediate and so powerful, it's really, really hard to shake this disease from an organization. It's impossible to overemphasize the importance of psychic rewards in the decision-making of staffers and candidates alike.

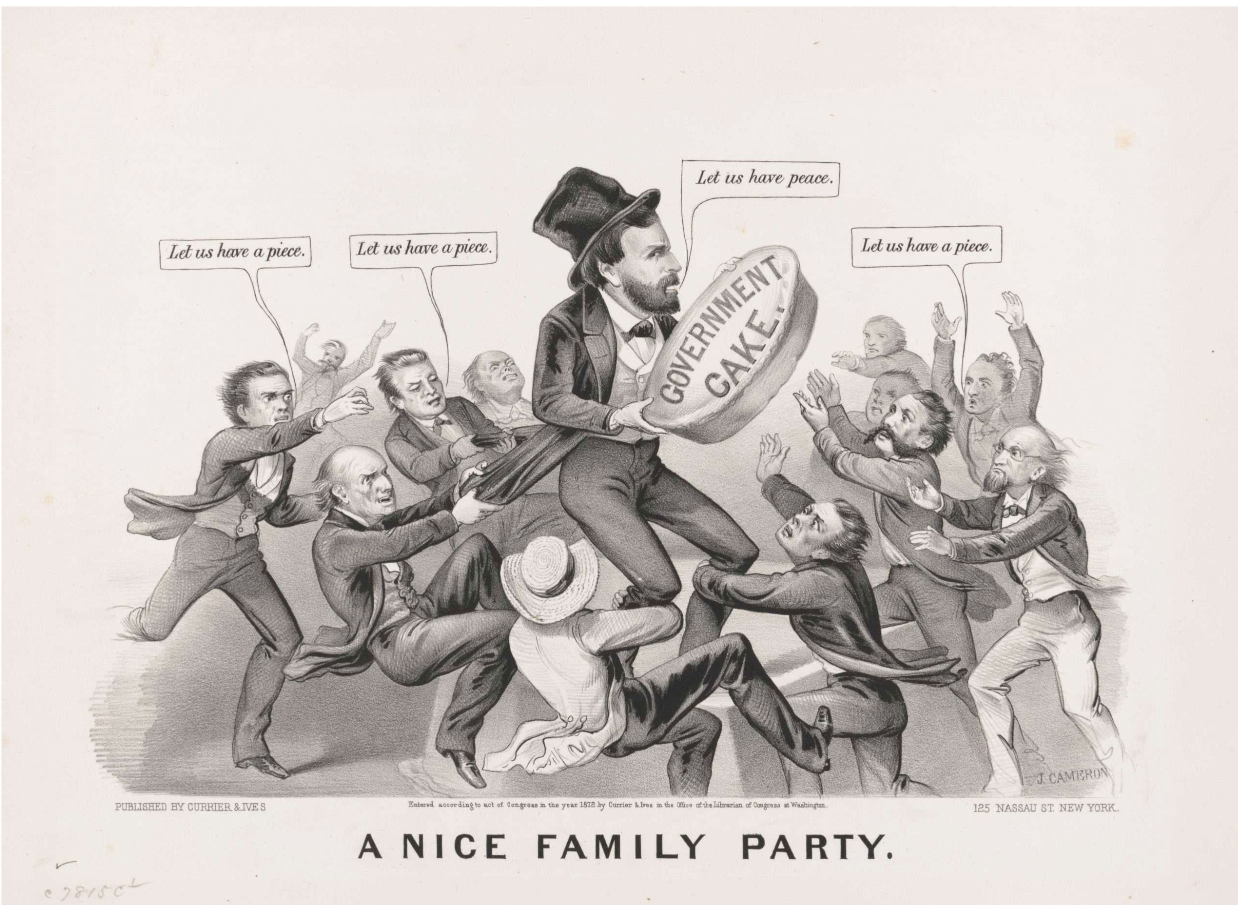



Ditto for psychic punishment. **It's impossible to overstate the human animal's ability to rationalize an abdication of principle when his tribe showers him with disdain.** It's impossible to overestimate a political animal's love of winning over anything else, including integrity. I mean, it's amazing how Ted Cruz was delighted to be the standard bearer of the in-party opposition so long as it looked like Trump was going to be trounced. But then the polls turned up for Trump, and Cruz falls all over himself doing his best Chris Christie imitation. Just goes to show, there's no mockery like self-mockery.

Two final points. First, everything I've written about the soft defection that's endemic within the Clinton campaign can be written about the Yellen Fed, too. God knows I've been railing about the Fed a lot in recent notes, though, so I'll save that for another day.

Second, there's always the risk that a note like this will be misinterpreted, that in critiquing the Clinton campaign I'll be perceived as supporting Trump. Nothing could be farther from the truth.

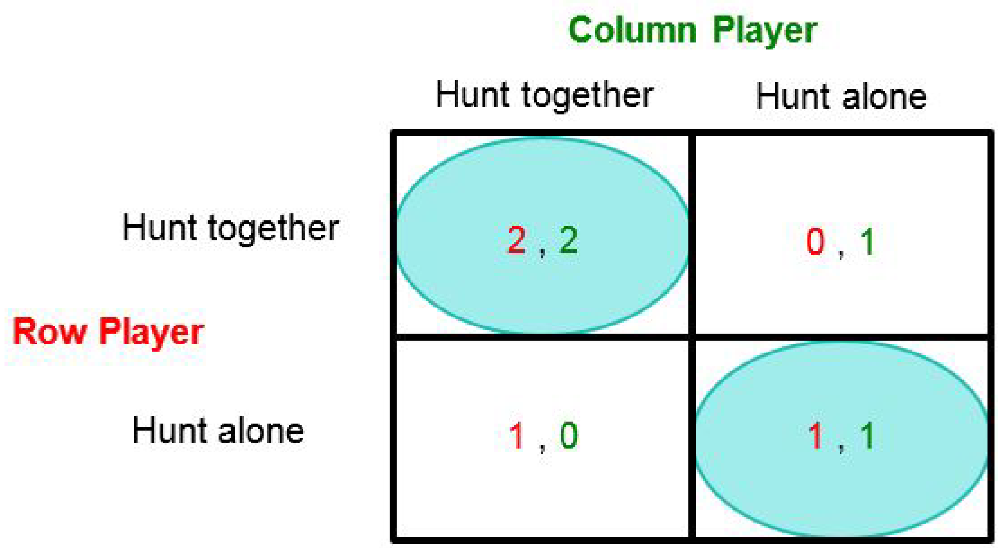
Don't get me wrong. I'm thoroughly despondent about the calcification, mendacity, and venal corruption that I think four years of Clinton™ will impose. I think as a candidate she's a bizarre combination of Michael Dukakis and Teddy Kennedy, and I think as a president she'll be an equally bizarre combination of Ulysses Grant and Warren Harding, both of whom presided over a *fin de siècle* global economic collapse. Gag. But I don't think she can break us, not as a society, anyway.




Trump, on the other hand … I think he breaks us. Maybe he already has. **He breaks us because he transforms every game we play as a country — from our domestic social games to our international security games — from a Coordination Game to a Competition Game.**

The hallmark of a Coordination Game is that there are two equilibrium outcomes possible, two balancing points where the game is stable. Yes, one of those stable outcomes is mutual defection, where everyone pursues their individual goals and everyone is worse off. But a stable outcome of mutual cooperation is at least *possible* in a Coordination Game, and that's worth a lot. Here's a graphical representation of a Coordination Game, using Rousseau's famous example of "the stag hunt".

**Fig. 1 Coordination Game (Stag Hunt)**




The basic idea here is that each player can choose to either cooperate (hunt together for a stag, in Rousseau's example) or defect (hunt independently for a rabbit, in Rousseau's example), but neither player knows what the other player is going to choose. If you defect, you're guaranteed to bag a rabbit (so, for example, if the Row Player chooses Defect, he gets 1 point regardless of Column Player's choice), but if you cooperate, you get a big deer if the other player also cooperates (worth 2 points to both players) and nothing if the other player defects. There are two Nash equilibria for the Coordination Game, marked by the blue ovals in the figure above. A Nash equilibrium is a stable equilibrium because once both players get to that outcome, neither player has any incentive to change his strategy. If both players are defecting, both will get rabbits (bottom right quadrant), and neither player will change to a Cooperate strategy. But if both players are cooperating, both will share a stag (top left quadrant), and neither player will change to a Defect strategy, as you'd be worse off by only getting a rabbit instead of sharing a stag (the other player would be even more worse off if you switched to Defect, but you don't care about that).

*The point of the Coordination Game is that mutual cooperation is a stable outcome based solely on self-interest, so long as the payoffs from defecting are always less than the payoff of mutual cooperation*. If that happens, however, you get a game like this:

**Fig. 2 Competition Game (Prisoner's Dilemma)**

| | | Column Player | |
|---|---|---|---|
| | | Cooperate | Defect |
| Row Player | Cooperate | 2 , 2 | 0 , 3 |
| | Defect | 3 , 0 | 1 , 1 |

Here, the payoff from defecting while everyone else continues to cooperate is no longer a mere 1 point rabbit, but is a truly extraordinary payoff where you get the "free rider" benefits of everyone else's deer hunting AND you go out to get a rabbit on your own. **This extraordinary payoff is what Trump is saying is possible when he talks about America "winning" again**. But it's not possible. Not for more than a nanosecond, at least, because there's no equilibrium there, no stability in either the upper right or bottom left quadrant. You want to pass a modern version of the 1930 Smoot-Hawley Tariff Act to "win" a trade deal? Knock yourself out. As in 1930, you'll enjoy those benefits for about two months before every other country does the same thing against you. And in about 12 months, as in 1931, every bank that's levered to global trade finance goes bust. Whee! There's one and only one equilibrium in a competition game — the "everyone defect" outcome of the bottom right quadrant — meaning that once you get to this point (and you will) you can't get out. *The stability of the Competition Game is the stability of permanent conflict.*

I'm no Pollyanna about the world. Not only do I think that the world is, in fact, described best as a Clash of Civilizations, but I also think that many of the cooperative international games we play as a country are inevitably heading toward a competitive dynamic, and this is at the heart of what I've described as the transformation of the Golden Age of the Central Banker to the Silver Age of the Central Banker. I get that. But it is insane to throw away the stable cooperative equilibrium we have with Japan and Europe and China in the international security game or the international trade game. Insane. **If I'm China and Trump is elected, I don't wait for him to fire the first shots in a trade war. I fire first, by floating my currency.** That's the Golden Rule of any competitive game: do unto others as they would do unto you … but do it first.

More importantly than what happens in any of these international games, however, is what happens in our domestic games. Blowing up our international trade and security games with Europe, Japan, and China for the sheer hell of it, turning them into full-blown Competition Games … that's really stupid. But we have a nasty recession and maybe a nasty war. Maybe it would have happened anyway. We get over it. Blowing up our American political game with citizens, institutions, and identities for the sheer hell of it, turning it into a full-blown Competition Game … that's a historic tragedy. We don't get over that.

But that's exactly what's happening. I look at Charlotte. I look at Dallas. I look at Milwaukee. And I no longer recognize us.

I don't think people realize the underlying fragility of the Constitution — the written rules to our American political game. It's just a piece of paper. Its only strength in theory is our communal determination to infuse it with meaning through our embrace of not only its explicit rules, but also and more crucially its unwritten rules of small-l liberal *values* like tolerance, liberty, and equality under the law. ***Its only strength in practice is that whoever runs our Executive branch, whoever is our Commander-in-Chief, whoever is in charge of "law and order", whoever runs our ~~massive spy bureaucracy~~ national intelligence service, whoever controls the legitimate use of deadly force and incarceration … that he or she believes in those unwritten rules of small-l liberal values like tolerance, liberty, and equality under the law***. When you hear Trump talk about "loosening the law" on torture, or "loosening the law" on libel prosecutions of anyone who criticizes HIM, or the impossibility of a federal judge being able to rule fairly because his parents were born in Mexico … well, there's no way he believes in those small-l liberal virtues. No way.

And yeah, I know what the supporters say, that he "really doesn't mean what he says", or that "once he's elected he'll listen to the right people and his views will evolve", or — my personal fave — "it's only 4 years, how bad can it be?" Answer: pretty damn bad. And yeah, I understand the argument on the Supreme Court. But what I'm talking about is bigger than the Supreme Court. A lot bigger.

I'm going to close this note with two pages from Friedrich Hayek's ***The Road to Serfdom (in Cartoons)***, originally published in *Look* magazine in 1945. If you've never read *The Road to Serfdom* … that's okay, most people haven't. But do yourself a favor and at least read the Classics Comic Book version I'm copying from here. I'm not saying that Hayek was some Nostradamus and I'm not saying that history is repeating itself. But I am saying that Hayek was a really smart guy who believed with all his heart in small-l liberal virtues and keenly observed the politics of the world the last time we got into such a global mess. I am saying that history rhymes.

We're in the middle of Cartoon #9 today. Our confidence in "the planners" — the central bankers of the world — has plunged over the last few months as the popular Narrative around negative rates and other extraordinary monetary policies is now more negatively skewed than the popular Narrative around Brexit.

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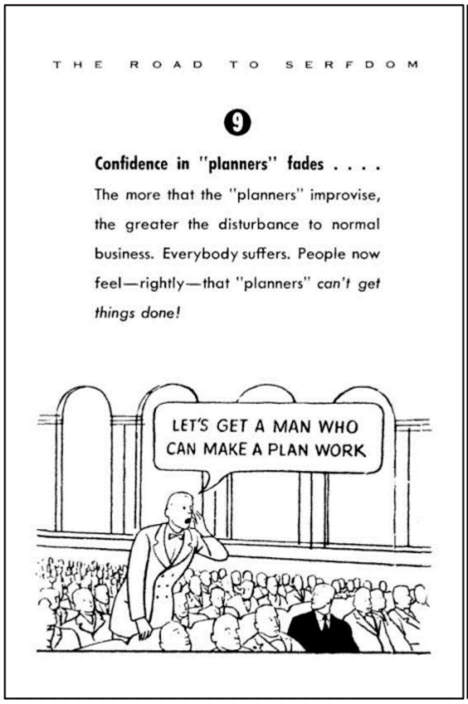
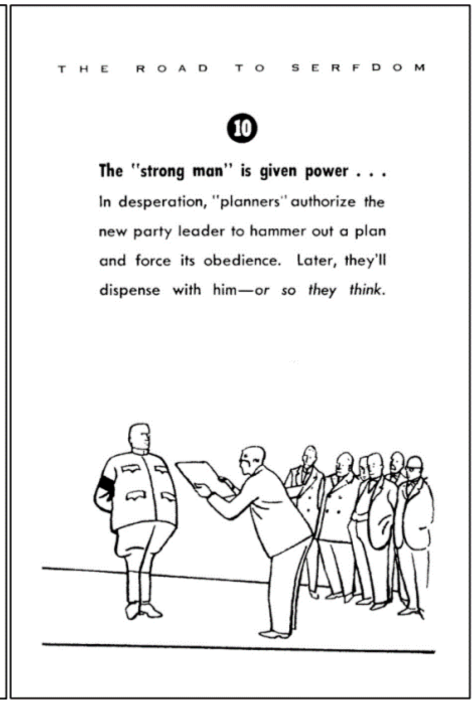

THE ROAD TO SERFDOM

9

**Confidence in "planners" fades . . . .**

The more that the "planners" improvise, the greater the disturbance to normal business. Everybody suffers. People now feel—rightly—that "planners" *can't get things done!*




THE ROAD TO SERFDOM

10

**The "strong man" is given power . . .**

In desperation, "planners" authorize the new party leader to hammer out a plan and force its obedience. Later, they'll dispense with him—*or so they think.*

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Over the next nine months we're going to have national elections in three of the largest, most powerful countries in the world: the U.S., Germany, and France. We'll have the equivalent of a national election in Italy, as well. Hayek believed that the inevitable result of those elections is Cartoon #10 — the coming to power of the strong man.

Yeah, Ben, or the strong woman. You're railing about Trump and his anti-liberal pseudo-fascist tendencies, but you're giving Clinton a pass? Seriously? Doesn't Hayek's work apply to smiley-face authoritarians as well as Brown Shirts? Aren't you just virtue signaling?

Heard.

But here's the biggest difference. ***I know how to resist Clinton***. It won't be a fun four years, but — thank you, gridlock! — I don't think she can mess things up so horribly that we can't undo it, or at least prepare for the political battles to come. I don't know how to resist Trump, and neither does anyone else, because we haven't experienced this reactionary populist strain in American politics since … I dunno … the Know Nothing Party of the 1850s?

So what's to be done? In investing, I'm just looking to survive the next four years, regardless of who's in office. I've written a lot on what that means, most recently in "Cat's Cradle". **In politics, I'm selling out for the Scottish Enlightenment and the small-l liberal values of tolerance, liberty, and equality under law.** I've got some ideas on how to bring those political values into a world of Google, spy satellites, and PlayStation 4, so that's what I'm going to write about. If there's no home for these political values in the Republican or Democratic parties — and who in their right mind thinks there is — then I'll find another home, another political party. I don't think the Republican Party or the Democratic Party will be recognizable in four years, anyway — both of these bands are now structurally unstable, I just don't know if the break-up is going to be like the Beatles or like Oasis — so I'll be working with a new political landscape. **But it's time for a third party based on IDEAS, not on a billionaire's personality.** Imagine that.

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